The Economist

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Politics this week



The Pheu Thai party won an election in **Thailand**. Led by Yingluck Shinawatra, the younger sister of Thaksin Shinawatra, who was deposed as prime minister in a military coup in 2006, the party won a majority in the lower house of parliament and added coalition partners to form a government. It is the fifth consecutive victory for a pro-Thaksin party and is a sharp rebuke to the governing elites. The army indicated that it would not challenge the result. See article

Australia resumed exports of live cattle to **Indonesia**, just a month after suspending them because some Australian cows were being slaughtered inhumanely. Export agents are supposed to assume responsibility for the cattle they sell.

A court in **Bangladesh** issued a warrant for the arrest of a son of Khaleda Zia, a former prime minister, charging him with having organised a grenade attack that killed 24 people at a political rally in 2004. Sheikh Hasina, the apparent target of that attack and nemesis of Mrs Zia, is now prime minister.

Vaults containing vast quantities of gold and jewellery from the 18th-century kingdom of Travancore were found under a **Hindu temple** in the capital of the Indian state of Kerala. One conservative estimate put the hoard's value at one trillion rupees ($22 billion). This is equal to half Kerala's GDP.

The 2018 winter Olympics were awarded to Pyeongchang in **South Korea**, which will be only the second Asian country to host the winter games.

Hugo home

Hugo Chavez, **Venezuela's** president, announced that his recent surgery in Cuba was for cancer. Mr Chavez returned to Caracas after three weeks abroad, but did not take part in person in the celebrations for the 200th anniversary of the country's independence. See article

Mexico's Institutional Revolutionary Party (PRI) handily won three governor's races, including the contest in heavily populated Mexico state. The governor of that state, Enrique PeÃ±a Nieto, is the front-runner to win the PRI's presidential nomination next year.

The **United States** and **Mexico** signed an agreement that will allow lorry drivers to deliver cross-border shipments all the way to their final destinations, implementing a long-overdue requirement of the countries' 1994 free-trade deal. In 2009 Mexico imposed tariffs on $2.3 billion of American goods, after the United States stopped letting Mexican lorries past the border area.

Brazil's transport minister resigned amid allegations that employees in his department had skimmed money from infrastructure projects. He is the second member of Dilma Rousseff's cabinet to quit within a month over corruption claims.

An unwanted sight



Two bombs in Taji, a town north of Baghdad, killed at least 35 people. Violence in **Iraq** is on the rise six months before the scheduled departure of American troops.

Zine el-Abidine Ben Ali, the former dictator of **Tunisia** now resident in Saudi Arabia, was again convicted in absentia, this time of illegally possessing drugs and weapons. Last month a court sentenced Mr Ben Ali and his wife to 35 years on theft charges. He fled Tunisia in January.

The German parliament questioned the recent sale of 200 tanks to **Saudi Arabia** because of the country's human-rights record, including its participation in the crackdown on protesters in Bahrain in March.

Around 98.5% of **Moroccan** voters approved a new constitution in a referendum proposed by King Mohammed VI, who faced pro-democracy protests earlier this year. See article

South Sudan prepared to celebrate its secession from Sudan following decades of political infighting and civil war. It officially gains independence on July 9th. See article

The lessons of Saint Paul

Minnesota's state government was shut down, affecting non-urgent services, after the Democratic governor and Republicans in the legislature failed to agree on a plan to plug a $5 billion budget deficit. As well as cutting spending Democrats want to raise taxes on Minnesota's wealthiest residents. See article

With the Treasury's deadline to avoid a default of August 2nd looming into view, the pace picked up in negotiations in Washington over raising the **federal debt ceiling**. Barack Obama held private talks with John Boehner, the Republican speaker of the House, and asked Democratic and Republican leaders to attend discussions at the White House. See article

The Transport Security Administration warned that recent intelligence indicated that **terrorists** linked to al-Qaeda were looking at ways to conceal bombs on aircraft by surgically implanting them into an operative's body. The agency said there was no imminent threat, but introduced extra security at airports.

Red-faces at a red-top



In Britain the scandal surrounding **phone-hacking** by the *News of the World*, a Sunday tabloid owned by Rupert Murdoch's News International, forced an emergency debate in the House of Commons, after allegations surfaced that the phones of young murder victims and people killed in 2005's terror attack in London had been hacked. Allegations also

emerged that police officers had been paid by the newspaper for providing information on stories. David Cameron, the prime minister, promised a public inquiry but not until the police end their investigation. See article

The **DSK scandal** continued to enthrall France. After prosecutors in New York admitted that the alleged victim had lost credibility in an attempted-rape case against Dominique Strauss-Kahn, the former head of the IMF, some speculated that he might return to the French presidential race. But another attempted-rape case against Mr Strauss-Kahn was pursued by a complainant in France, which may dim his prospects. See article

A court in the **Netherlands** ruled that the Dutch state was responsible for three deaths in the Srebrenica massacre in 1995. Dutch peacekeepers were meant to be protecting Bosnian Muslims at the time.

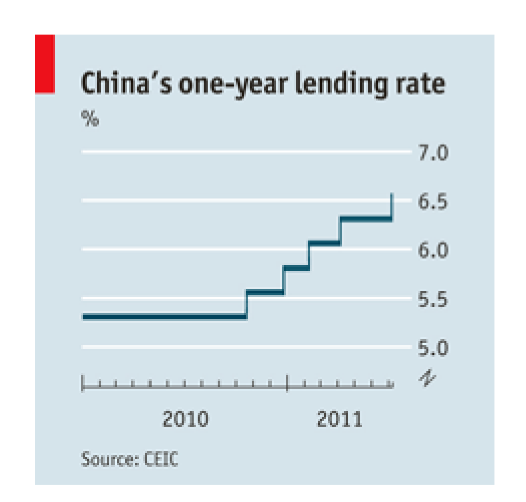
Silvio Berlusconi, **Italy's** prime minister, was forced to withdraw a clause he had slipped into an emergency budget. The clause would have helped his Fininvest holding company to delay for some years compensation it had been ordered by a court to pay to Carlo De Benedetti, a business rival. See article

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Business this week

The World Trade Organisation ruled that China's curbs on **exports of raw materials** are illegal, upholding a complaint lodged by the United States, the European Union and Mexico. China criticised the decision, justifying its limits on exports of metal ores and other materials on environmental grounds. The WTO's ruling could help America and others in any dispute with China over rare-earth materials, which are used in high-tech products. China has one-third of the world's reserves and accounts for almost all of current production but it has restricted exports, which some think is to induce foreign technology firms to place operations inside China. See article



The People's Bank of China raised **interest rates** for the fifth time in eight months, increasing both the one-year lending and deposit rates by a quarter of a percentage point. The central bank has taken a number of measures this year to restrict credit.

Underlining the dangers from a growing mountain of debt to the **Chinese economy**, Moody's, a credit-rating agency, issued a report claiming that China's first official audit of local-government loans had underestimated their value by $540 billion, which would take the total to $2.1 trillion.

Portugal reacted angrily to Moody's downgrade of its sovereign debt to "junk" status, complaining that it had not considered the country's recent austerity measures or new political consensus after an election. Moody's made the cut on the basis that Portugal will have trouble raising funds in the markets, if private investors take a hit in a second rescue deal

for **Greece**. More European feathers were ruffled when Standard & Poor's became the first ratings agency to confirm that it may consider French proposals for private investors to roll over their Greek debt to be a "selective default".

Zurich wins, Frankfurt loses

UBS nominated Axel Weber to be its next chairman, starting in 2013. Mr Weber is a former head of the German Bundesbank who earlier this year surprised many by ruling himself out of the running to succeed Jean-Claude Trichet as president of the European Central Bank. Mr Weber's appointment at the Swiss bank is a big blow for **Deutsche Bank**, which had spent the past two years courting him for a possible senior position.

Cesare Geronzi, one of Italy's most powerful financiers, was given a four-year prison term in relation to the bankruptcy in 2002 of Cirio, a food company. Mr Geronzi stepped down as the chairman of Assicurazioni Generali, Italy's largest insurer, in April and is a former chairman of Mediobanca, an investment bank. He was convicted of fraud in a separate case in 2006, but won an appeal. He remains free while he appeals against the decision in the Cirio trial.

Supermarket sweeps stakes

The dispute intensified between **Casino** and **Carrefour**, two French retailers, over the latter's proposed venture for **Pao de Acucar** (GPA), a fast-growing Brazilian chain. Casino, which owns a 43% stake in GPA but was not consulted about the proposal, pressed its claim that Carrefour's plan to merge its existing assets in Brazil with those of GPA was hostile and arose "out of illegal negotiations". Carrefour was also criticised by some shareholders for not disclosing that it had held talks. The company insisted that the offer for GPA was not hostile. See article

Microsoft struck a deal that will see its Bing search engine adopted for internet searches in English on **Baidu**, China's most popular website. But the deal was criticised by some because searches in China on Bing will be subject to censorship rules. Google stopped offering a censored search service in China last year in a spat over the government's interference with its site.

HTC's net profit and revenues more than doubled in the second quarter compared with a year earlier. Two years ago the Taiwanese smartphone- maker retuned its business to make fewer devices that run on Microsoft's Windows Mobile operating system and more that work on Google's Android.

Verizon Wireless followed AT&T by scrapping its unlimited-data plans for new smartphone subscribers and introducing **tiered payment schemes** based on the gigabytes of data used. Wireless operators in America have rapidly moved away from "all you can eat" plans for customers and are providing more selective pricing menus in anticipation of the increased appetite for services from high-speed networks.

Great expectations

It emerged that **Twitter** has begun another effort to raise capital from private investors, which could value the microblogging website at $7 billion. In February, during a previous fund-raising round, privately held Twitter was thought to be worth $4.5 billion.

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KAL's cartoon



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The future of news

Back to the coffee house

The internet is taking the news industry back to the conversational culture of the era before mass media



Jon Berkeley/Corbis

THREE hundred years ago news travelled by word of mouth or letter, and circulated in taverns and coffee houses in the form of pamphlets, newsletters and broadsides. "The Coffee houses particularly are very commodious for a free Conversation, and for reading at an easie Rate all manner of printed News," noted one observer. Everything changed in

1833 when the first mass-audience newspaper, the New York *Sun*, pioneered the use of advertising to reduce the cost of news, thus giving advertisers access to a wider audience. At the time of the launch America's bestselling paper sold just 4,500 copies a day; the *Sun*, with its steam press, soon reached 15,000. The penny press, followed by radio and television, turned news from a two-way conversation into a one-way broadcast, with a relatively small number of firms controlling the media.

Now, as our special report explains, the news industry is returning to something closer to the coffee house. The internet is making news more participatory, social, diverse and partisan, reviving the discursive ethos of the era before mass media. That will have profound effects on society and politics.

Going West

In much of the world, the mass media are flourishing. Newspaper circulation rose globally by 6% between 2005 and 2009, helped by particularly strong demand in places like India, where 110m papers are now sold daily. But those global figures mask a sharp decline in readership in rich countries.

Over the past decade, throughout the Western world, people have been giving up newspapers and TV news and keeping up with events in profoundly different ways. Most strikingly, ordinary people are increasingly involved in compiling, sharing, filtering, discussing and distributing news. Twitter lets people anywhere report what they are seeing. Classified documents are published in their thousands online. Mobile-phone footage of Arab uprisings and American tornadoes is posted on social-networking sites and shown on television newscasts. An amateur video taken during the Japanese earthquake has been watched 15m times on YouTube. "Crowdsourcing" projects bring readers and journalists together to sift through troves of documents, from the expense claims of British politicians to Sarah Palin's e-mails. Social-networking sites help people find, discuss and share news with their friends.

And it is not just readers who are challenging the media elite. Technology firms including Google, Facebook and Twitter have become important (some say too important) conduits of news. Celebrities and world leaders, including Barack Obama and Hugo Chavez, publish updates directly via social networks; many countries now make raw data available through "open government" initiatives. The internet lets people read newspapers or watch television channels from around the world: the *Guardian*, a British newspaper, now has more online readers abroad than at home. The web has allowed new providers of news, from individual bloggers to sites such as the *Huffington Post*, to rise to prominence in a very short space of time. And it has made possible entirely new approaches to journalism, such as that practised by WikiLeaks, which provides an anonymous way for whistleblowers to publish documents. The news agenda is no longer controlled by a few press barons and state outlets, like the BBC.

We contort, you deride

In principle, every liberal should celebrate this. A more participatory and social news environment, with a remarkable diversity and range of news sources, is a good thing. A Texan who once had to rely on the *Houston Chronicle* to interpret the world can now collect information from myriad different sources. Authoritarian rulers everywhere have more to fear. So what, many will say, if journalists have less stable careers? All the same, two areas of concern stand out.

The first worry is the loss of "accountability journalism", which holds the powerful to account. Shrinking revenues have reduced the amount and quality of investigative and local political reporting in the print press.

But old-style journalism was never quite as morally upstanding as journalists like to think. Indeed, the *News of the World*, a British newspaper which has been caught hacking into people's mobile phones, is a very traditional sort of scandal sheet (see article). Meantime, the internet is spawning new forms of accountability. A growing band of non-profit outfits such as ProPublica, the Sunlight Foundation and WikiLeaks are helping to fill the gap left by the decline of watchdog media. This is still a work in progress, but the degree of activity and experimentation provides cause for optimism.

The second concern has to do with partisanship. In the mass-media era local monopolies often had to be relatively impartial to maximise their appeal to readers and advertisers. In a more competitive world the money seems to be in creating an echo chamber for people's prejudices: thus Fox News, a conservative American cable-news channel, makes more profits than its less strident rivals, CNN and MSNBC, combined.

In one way the increasing availability of partisan news is to be welcomed. In the past many people-especially right-wing Americans, since most American television was left-leaning-had nothing to watch that reflected their views. But as news is becoming more opinionated, both politics and the facts are suffering: witness some American conservatives' insistence that Barack Obama was born outside America, and others' refusal to accept that taxes must rise (see article).

What is to be done? At a societal level, not much. The transformation of the news business is unstoppable, and attempts to reverse it are doomed to failure. But there are steps individuals can take to mitigate these worries. As producers of new journalism, they can be scrupulous with facts and transparent with their sources. As consumers, they can be catholic in their tastes and demanding in their standards. And although this transformation does raise concerns, there is much to celebrate in the noisy, diverse, vociferous, argumentative and stridently alive environment of the news business in the age of the internet. The coffee house is back. Enjoy it.

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Britain's phone-hacking scandal

Street of shame

A full judicial inquiry is needed immediately to clean up British journalism



Dylan Thomas/Alamy

NOT for nothing is it known as the gutter press. The allegations that the *News of the World*, Britain's biggest Sunday newspaper, broke into the voicemail of a murdered teenage girl, is a stain on the newspaper and on News International, its owner. But the stench is much more widespread. As new allegations of lawbreaking surface, journalism itself is reeking. So are Britain's politicians and especially its police.

Britain has long had a scrappy press. A brutally competitive newspaper market encourages screaming headlines and intrusive tittle-tattle. In France a politician's peccadillos may be kept quiet for years. In Britain they are splashed across the front pages. Britons know their newspapers are rude, excessive and unreliable. But they want them to draw blood from politicians and misbehaving celebrities.

Thanks largely to some splendid muckraking by the *Guardian*, it is now clear how one tabloid obtained some of its headlines. The *News of the World* seems routinely to have asked a private investigator to hack into mobile-phone mailboxes, which is a crime. Until this week the victims seemed to be celebrities, publicists, politicians and other journalists-the sort of people who, in the British mind, probably deserve what they get. But a lawyer representing the family of the murdered girl claims that police said her phone was hacked in a way that raised hopes that she was alive. The families of terrorism victims, dead soldiers and two other murdered girls are also said to have been targeted. If true, that is callousness heaped on criminality.

Far beyond the printing presses

Four deeply worrying questions emerge from this. The first is how a newsroom could run so far out of control. And almost certainly not just one newsroom. In 2006 the Information Commissioner explained that the use of private investigators was widespread. It is notable that Britain's other tabloid newspapers, which love to kick a rival when it is down, have been disturbingly quiet about the allegations of phone hacking at the *News of the World*. It may turn out that the paper was merely the most enthusiastic, ruthless lawbreaker among several.

The second question concerns News International, the British newspaper arm of Rupert Murdoch's News Corporation. It has consistently ducked and twisted. For as long as they could get away with it, executives claimed the phone hacking was the doing of a rogue reporter. When that argument was demolished, they claimed few knew of wrongdoing. Rebekah Brooks, News International's chief executive, told staff this week that it was inconceivable she knew of the alleged phone hacking when she was editor of the *News of the World*. Yet if the allegations are true, many journalists at the newspaper would have known about such practices, and failed to report them. That can only happen in an outfit that has lost any sense of right and wrong. The notion that its rivals were perhaps doing the same thing is no excuse.

Then there are the police. The initial investigation by the Metropolitan Police into phone hacking was pitiful. For years the cops sat on a huge sheaf of seized documents and did nothing. Sloppiness is one thing. But the police tend to be hand-in-glove with popular newspapers. An implicit deal applies: we give you stories, you raise the alarm about criminals on the loose. And, occasionally, put your hand in your pocket too. Files handed over last month suggest that police received some payments from the *News of the World*.

The politicians who have fulminated against the press over the past few days are tainted, too. Far from urging the police to conduct a full investigation, they have long cosied up to the tabloids. Alastair Campbell, Tony Blair's powerful director of communications, came from the *Daily Mirror*. Andy Coulson, who resigned as editor of the *News of the World* in 2007, went on to run David Cameron's communications machine. Fear seems to play a role. One member of the parliamentary culture committee alleged last year that members had been warned they could be targeted by newspapers if they insisted on summoning Mrs Brooks to give evidence against her will.

Black, white and red all over

It is a depressing mess-and one with wide consequences. As the *Times*, another Murdoch paper, has correctly pointed out, British journalism is in its equivalent of the MPs expenses scandal. Given the uselessness of the Press Complaints Commission throughout, this affair will only encourage demands for regulatory oversight of the press. This would probably do more harm than good. Britain already has the toughest libel laws in the world, which have been misused repeatedly to protect the rich and the powerful; and giving the state power to regulate the press is a dangerous temptation to governments.

So what should be done? Within News International anyone implicated directly in any aspect of this saga-not just the apparent phone hacking at the *News of the World* but the obfuscations since-should immediately stand down, pending a proper police investigation. Then there needs to be a judicial inquiry, with the power to call witnesses, including police officers, under oath. That should cover all newspapers, not just Mr Murdoch's, and ferret out other dodgy activities, such as obtaining private medical records and credit-card transactions. If the result of such an inquiry is a bloodbath in Fleet Street and Scotland Yard, so be it. Mr Cameron's refusal to push ahead with this forcefully is incredibly cowardly and shortsighted.

Some MPs have called for News Corporation's purchase of the 61% of BSkyB it does not already own to be delayed, while Britain's media regulator investigates whether the firm is a "fit and proper" owner of the satellite-TV company. That is a stretch. The acquisition, which this newspaper thought was fair, is a matter of competition law. The regulator can find a broadcaster to be unfit, and yank its licence, at any time.

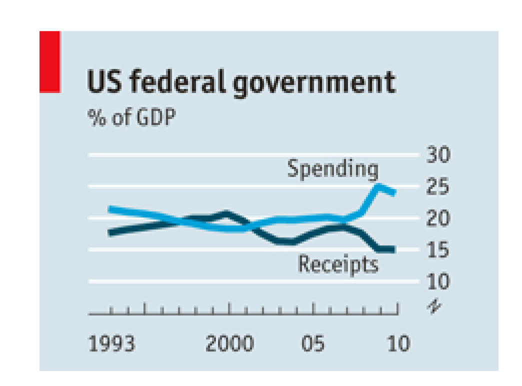
It also misses the point. Mr Murdoch is a ferocious businessman who has helped steer media through a treacherous digital transition. But if it is proven that News Corporation's managers condoned lawbreaking, they should not be running any newspaper or television firm. They should be in prison.

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America's debt

Shame on them

The Republicans are playing a cynical political game with hugely high economic stakes



IN THREE weeks, if there is no political deal, the American government will go into default. Not, one must pray, on its sovereign debt. But the country will have to stop paying someone: perhaps pensioners, or government suppliers, or soldiers. That would be damaging enough at a time of economic fragility. And the longer such a default went on, the greater the risk of provoking a genuine bond crisis would become.

There is no good economic reason why this should be happening. America's net indebtedness is a perfectly affordable 65% of GDP, and throughout the past three years of recession and tepid recovery investors have been more than happy to go on lending to the federal government. The current problems, rather, are political. Under America's elaborate separation of powers, Congress must authorise any extension of the debt ceiling, which now stands at $14.3 trillion. Back in May the government bumped up against that limit, but various accounting dodges have been used to keep funds flowing. It is now reckoned that these wheezes will be exhausted by August 2nd.

The House of Representatives, under Republican control as a result of last November's mid-term elections, has balked at passing the necessary bill. That is perfectly reasonable: until recently the Republicans had been exercising their clear electoral mandate to hold the government of Barack Obama to account, insisting that they will not permit a higher debt ceiling until agreement is reached on wrenching cuts to public spending. Until they started to play hardball in this way, Mr Obama had been deplorably insouciant about the medium-term picture, repeatedly failing in his budgets and his state-of-the-union speeches to offer any path to a sustainable deficit. Under heavy Republican pressure, he has been forced to rethink.

Now, however, the Republicans are pushing things too far. Talks with the administration ground to a halt last month, despite an offer from the Democrats to cut at least $2 trillion and possibly much more out of the budget over the next ten

years. Assuming that the recovery continues, that would be enough to get the deficit back to a prudent level. As *The Economist* went to press, Mr Obama seemed set to restart the talks.

The sticking-point is not on the spending side. It is because the vast majority of Republicans, driven on by the wilder-eyed members of their party and the cacophony of conservative media, are clinging to the position that not a single cent of deficit reduction must come from a higher tax take. This is economically illiterate and disgracefully cynical.

A gamble where you bet your country's good name

This newspaper has a strong dislike of big government; we have long argued that the main way to right America's finances is through spending cuts. But you cannot get there without any tax rises. In Britain, for instance, the coalition government aims to tame its deficit with a 3:1 ratio of cuts to hikes. America's tax take is at its lowest level for decades: even Ronald Reagan raised taxes when he needed to do so.

And the closer you look, the more unprincipled the Republicans look. Earlier this year House Republicans produced a report noting that an 85%-15% split between spending cuts and tax rises was the average for successful fiscal consolidations, according to historical evidence. The White House is offering an 83%-17% split (hardly a huge distance) and a promise that none of the revenue increase will come from higher marginal rates, only from eliminating loopholes. If the Republicans were real tax reformers, they would seize this offer.

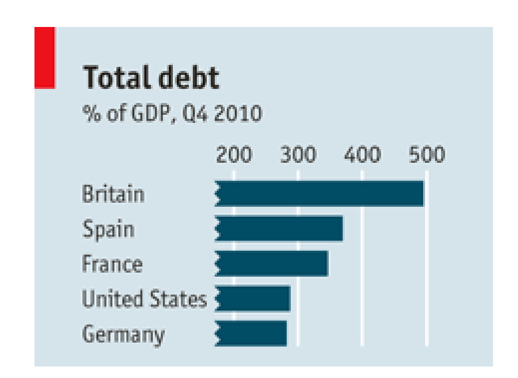
Both parties have in recent months been guilty of fiscal recklessness. Right now, though, the blame falls clearly on the Republicans. Independent voters should take note.

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Debt reduction

Handle with care

"Deleveraging" will dominate the rich world's economies for years. Done badly, it could wreck them



DEBT reduction, or deleveraging as it is known in the inelegant argot of economists, is a painful process. Growth suffers as consumers and firms, let alone governments, try to reduce their debts. Countries which experienced the biggest asset busts, such as America, Britain and Spain, have had the most disappointing recoveries. And the pain will continue: a careful look at the numbers suggests that the process of deleveraging has barely begun.

A new analysis by the McKinsey Global Institute suggests that over the past year or so total debt levels, measured relative to GDP, have stabilised and, in some rich countries, started to inch down. But if history is a guide, there is still a long way to go. The ratio of total debt to GDP in both America and Britain has fallen by just over ten percentage points from its

peak-a fraction of the scale of debt reduction in a typical deleveraging period (see article). Worse, the McKinsey analysis suggests that economies usually stagnate, or even shrink, early in the overall debt-reduction process.

To minimise that risk, the pace of deleveraging needs to be carefully calibrated. The experience so far of the most indebted economies offers useful pointers on what to do, and what not to do.

Debt can be reduced in several ways. It can be paid off with the help of higher thrift (though not everyone can spend less than they earn at the same time). Its burden can be reduced through higher inflation or faster growth. Or it can be defaulted on. In practice, rich countries seem to be using different combinations of these approaches.

In America, where overall debt levels have fallen fastest, a lot of the reduction in household debt has been thanks to mortgage defaults and write-downs. In Britain, where there have been virtually no mortgage write-downs, relatively high inflation has pushed down the overall debt burden. Spain, in contrast, has seen virtually no reduction in its debt load, despite fiscal austerity, partly because that very austerity has contributed to weak growth and low inflation which have kept down nominal GDP. Tough rules on mortgages have made it hard to reduce unpayable household debt.

Write down and get real

What can be learnt from these various approaches? It is still early days, but four lessons stand out. The first is that in some extreme cases, when a large debt reduction is needed, orderly write-downs are necessary. The foreclosures on American mortgages have been severe, but they mean that household debt is likely to shrink to manageable levels faster than in, say, Britain, where low interest rates on variable mortgages and a lot of "forbearance" by banks have kept defaults artificially low. At the sovereign level the same logic should apply to hopelessly bankrupt Greece: it needs a debt write-down.

Second, nominal growth is essential to bring down the weight of debt. It is hard to ease the debt burden in a stagnant economy with low inflation. That suggests the pace of public-sector austerity, where possible, needs to be calibrated to the scale of private deleveraging. America's government, for instance, needs a medium-term plan for deficit reduction, but cutting back spending viciously in the short term at a time of private-sector retrenchment would be a mistake.

Third, the best way to ease the pain of deleveraging is with an export-led boom. Here, progress has been painfully slow. The external deficits of ex-bubble economies have shrunk since 2007, but not by enough-and some now seem to be rising again. There has been too little rebalancing of global demand towards big emerging economies. That will require stronger currencies in emerging Asia and weaker ones in the rich world.

Deeper shifts will also be necessary: a strengthening of consumer society in China, for example, and a reallocation of resources towards tradable goods and services in Britain and America. Unfortunately, the sensible goal of rebalancing towards net exports can lead to dubious policy prescriptions. Britain, for instance, would be mad to turn its back on financial services (see article). No rich country needs a smorgasbord of subsidies for manufacturing. Far better to get rid of distortions and improve the economy's flexibility.

All this will take time. So the fourth, most important and most depressing lesson for the great deleveraging is that of realism. Even if handled well, the difficult business of debt reduction will hold back the rich world's economies for several more years. Get used to it.

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Thailand's election

A precious chance

Yingluck Shinawatra must keep her word on reconciliation and break it on spending



THE lesson from Thailand's general election could not be more emphatic. Five years of strenuous attempts by the Thai establishment to destroy Thaksin Shinawatra as a political force have come to naught.

In 2006 the army pushed the democratically elected Mr Thaksin out at the end of a gun barrel. The establishment and courts hounded him into exile, confiscated his assets and twice disbanded political parties loyal to him. Despite all that, Pheu Thai, the party headed by Mr Thaksin's telegenic younger sister, Yingluck Shinawatra, swept the board on July 3rd. Pheu Thai won a majority of the national vote, with a high turnout, securing 265 of the Parliament's 500 seats. For good measure it swiftly announced a governing coalition with a bunch of smaller parties; the coalition now accounts for nearly 300 seats. The Democrat Party under Abhisit Vejjajiva, the outgoing prime minister, got just 159.

A new, undeferential order

There was much to object to about Mr Thaksin's time in office. He was corrupt, and autocratic in the mould of Hugo Chavez. And never forget the extrajudicial squads he sanctioned that killed thousands of drug users and peddlers. Yet Pheu Thai's victory underscores Mr Thaksin's profound innovation, one that will outlive him. He transformed the old politics of local patronage into a wholesale machine spreading goodies such as universal health care and microcredit nationwide. That challenged the establishment's notions of a perfect and deferential hierarchy, with the king at the top and the poor at the bottom as grateful recipients of occasional largesse, while the elites and the army carried on enriching themselves. On July 3rd Thais voted, yet again, against deference and hierarchy.

The fear is that such an emphatic win will reopen divisions in what not so long ago was South-East Asia's brightest democracy. Last year's chaos led Thailand to the brink of civil war, after 92 were killed during the army-suppressed protests by pro-Thaksin "red shirts". It is natural to wonder about fresh divisions. Yet there are reasons to hope that Thailand has the best chance in years to start putting its divisions behind it.

To begin with, the scale of Ms Yingluck's triumph makes it very much harder for the forces of the establishment to deny her victory, through legal or extralegal manoeuvres. Mr Abhisit deserves credit for calling for elections and for accepting defeat with good grace. The army, which made a mess of governing the country after the 2006 coup, says it will stay in its barracks.

Next, the relative calm of the election campaigns underlined how very broad a swathe of the country wants to take politics from the streets and put it back in parliament. Ms Yingluck herself has often talked of reconciliation. As for the pro-royal "yellow shirts", hotheads whose anti-Thaksin protests created the conditions for the army coup, they appear to be a busted flush. They have fallen out with their former allies in the Democrat Party, accusing them of being soft over a territorial dispute with Cambodia. Their jingoism alienated supporters among Bangkok's middle classes. They got little kudos for boycotting the elections (see article).

Above all, Yingluck Shinawatra is not Mr Thaksin. It is true that he refers to his younger sister as his "clone". He masterminded and bankrolled the election campaign, and his claim that he wants to retire from front-line politics is simply not credible. In office, Mr Thaksin revelled in power. Every bone in his body wants to be out before adoring crowds. But the army and perhaps the king would resist his return: indeed it could tip the country back into chaos.

So it is crucial that Ms Yingluck sticks to her promise, repeatedly made on the campaign, not to rush to grant Mr Thaksin an amnesty and bring him back. She has after all a mandate that transcends the influence of her brother. And she must remember that reconciliation is a loaded word. Red shirts have been targeted by the courts, and their media outlets shut down. They bore the brunt of the violence a year ago, even if there were armed pro-Thaksin provocateurs. Ms Yingluck must oversee the search for justice, but she will have to ensure that it does not degenerate into a witch-hunt.

Just as Ms Yingluck must stick to her promises over reconciliation, so she will have to find a way to defer many of her campaign promises to spend. These pledges helped secure her victory, but they are unaffordable. For instance, she proposes a rise in the minimum wage, to 300 baht ($10) a day. That would be hideously costly for the country, especially for small businesses in precisely the poorer regions the Thaksinites claim to embrace. When financial markets rose on news of Ms Yingluck's victory, it must surely have been in part because they doubted she would really see the worst of her spending plans through. The Democrats had some better ideas: for instance, varying the minimum wage according to regional pay levels. Ms Yingluck should ditch her plan and embrace theirs.

It will be an early test of whether she will pursue sensible policies rather than populist ones. It will also be an indication of whether this unusual new prime minister really is the person to return Thailand to a steady path.

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Aircraft and emissions

Clean-air turbulence

Europe is right to include airlines in its emissions-trading scheme



FASTEN your seatbelts. From next January, if the European Commission gets its way, carbon dioxide produced by flights into and out of Europe, as well as within it, will come under the European Union's Emissions Trading Scheme (ETS).

As this will turn a cost now imposed on the environment into a cost on airlines, a lot of those airlines are keen for the commission not to get its way. On July 5th some of them took the matter to the European Court of Justice, saying that in bringing flights from elsewhere into its cap-and-trade scheme, thus requiring that airlines pay for some of their emissions, the EU has gone too far. Some non-European governments, supporting their local airlines, have talked about retaliation, perhaps in the form of a boycott of Europe's Airbus airliners, for which orders have recently poured in thanks partly to their superior fuel efficiency (see article).

Sit back and relax

Putting a price on carbon emissions is a good way to discourage them. A carbon tax would make the most sense, but trading emissions in a market such as the ETS allows carbon-cutting to be done in a cost-efficient way. Most of Europe's big emitters, such as power generators and heavy industry, are included in the ETS, which means that they are allocated emissions permits which they can buy and sell. Up to now, airlines have got off scot-free because the ETS is European and airlines are, by their nature, transnational. But that has become increasingly contentious because airlines are responsible for 2-3% of the world's emissions, and their share is growing fast.

A global carbon market would be better than a European one, but there is no prospect of one starting up any time soon. Nor is the airline industry about to volunteer to pay for the pollution it causes. After more than a decade of negotiations within the International Civil Aviation Organisation (ICAO), which sets the rules for air travel, the Europeans have concluded that the ICAO is not going to set up a global scheme. Hence the commission's decision to include airlines in the ETS.

To the commission's opponents, its actions look like imperious overreach. The Americans, the Chinese and many others question the EU's right to tax flights that start in San Francisco or Shanghai. The airlines say that including them in the ETS will raise the costs of flights significantly. According to a study by Standard & Poor's, inclusion in the ETS could cost the industry euro1.1 billion ($1.6 billion) in the first year, and (depending on the distance flown and the carbon price) put up to euro40 on the price of a ticket. Airlines argue that they already pay lots of taxes, which governments justify on green grounds.

The airlines have a point when they complain that Europe could impose its rules in a discriminatory manner. The ETS requirements can be waived on flights from nations that have what the EU sees as "equivalent measures" in place-and Brussels will decide what counts as equivalent. The plan would be fairer if such disputes were referred to a neutral forum in which "equivalent measures" could be defined. And it would be more palatable if governments cut the taxes that they currently justify in the name of greenery.

But although the Europeans have got some details wrong, they have got the big picture right. Airlines, and the consumers who use them, need to pay the costs of the pollution they produce. And if carbon pricing starts spreading from Europe around the globe, so much the better.

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Letters

On charter schools, the IPCC, fracking, online betting, police commissioners, Greece

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Letters are welcome via e-mail to letters@economist.com

New York's schools



SIR - Your article, "Advancing coloured people?" (June 25th), ignored the fact that, for months, the NAACP tried to avoid legal action before filing its lawsuit against the New York City Board of Education. The school board continued to flout state law and a previous court order that required it to implement plans to fix low-performing schools, engage with parents before shutting down their schools and co-locate schools equitably. In our lawsuit we are standing up with parents and educators to ensure that all students receive a world-class education.

Charter schools serve only 4% of the children in New York, but the co-locations, where traditional and charter schools share space, are creating a system of "separate and unequal". In one co-location students from the traditional school have old textbooks and broken toilets while charter-school children have high-tech classrooms and renovated restrooms. At another school charter-school students have twice as many science labs, even though they account for half the students. At another, children are taught in the hallways to make room for their charter-school peers.

Several stellar programmes in traditional schools are being shut down to make way for charter schools, including a vitally needed dental clinic and a robotics programme. At one school the art room was taken away from an art programme that had forged a partnership with a bank, which had displayed and sold the children's artwork while opening up bank accounts and teaching skills in financial management to students.

The NAACP is not opposed to charter schools. We want every student to be in the school of their choice in a way that is fair and just. We also want to leave their understanding of separate and unequal to history lessons.

Kim Keenan
General counsel
NAACP
Washington, DC

The IPCC's review process

SIR - You questioned the ability of the Intergovernmental Panel on Climate Change to provide balanced assessments and avoid bias grounded in the opinions of particular authors ("A climate of conflict", June 25th). But you ignored the many layers of procedures at the IPCC that have been designed specifically to minimise the possibility that reports are influenced by the strong opinions of individual authors. The IPCC relies on the participation of people from academic institutions, NGOs, business and industry in order to get access to the relevant expertise. Controls occur both in the selection of author and the input from expert and government reviewers. The review process and the governmental approval of final reports are independently monitored.

The IPCC has now approved a formal policy on conflicts of interest as recommended by the InterAcademy Council, a network of national science councils. This is an already endorsed increment in a pervasive system and is not a first step in a whole new area. Our new special report on renewables continues the tradition of balanced, thorough assessments at the IPCC.

Ottmar Edenhofer
Co-chair of the IPCC Working Group III
Potsdam, Germany



SIR - Your story on the row over the new report by the IPCC on renewable energy didn't mention that the research at the centre of the row was published in an academic paper in the peer-reviewed journal *Energy Efficiency*. That said the IPCC should now abandon its practice of publishing a summary for policymakers before the release of the accompanying technical report, a practice which prevents the scientific basis for conclusions from being properly scrutinised at the outset.

Bob Ward
Grantham Research Institute on Climate Change and the Environment
London

Fracking procedures

SIR -*The Economist* asserts that using hydraulic fracturing to stimulate oil and gas wells can "damage the water table, disrupt communities and even cause earthquakes" ("Fracking heaven", June 25th). Hydraulic fracturing has been safely used more than 1.1m times in the United States since the 1940s. Numerous government officials and independent experts have concluded that the procedure does not contaminate drinking water. This is not only because of tight industry standards but also because the process takes place thousands of feet below the water table, with a mile or more of impenetrable rock separating the injection site from freshwater supplies.

As for earthquakes, the area mentioned in your article, Blackpool, is in the heart of one of the most seismically active regions in Britain. Concluding that hydraulic fracturing can "cause earthquakes" is thus speculative at best.

Your article looked at the use of fracking in Poland. That country sits atop the largest shale gas resources in Europe, and unlike France, the Poles appear ready to develop these resources safely and responsibly using hydraulic fracturing.

Lee Fuller
Executive director
Energy in Depth
Washington, DC

All bets are on

* SIR - Among the options facing the British government as it reviews the regulation of offshore gambling ("Bet collectors", June 18th) is the clear opportunity to create a more level playing field between online and high-street betting operators. A reduction in the tax burden and a sensible look at the regulations applying to the land-based industry (which currently prevent it from fully delivering to customer demand), would enable the Treasury's tax take to grow over time.

Any new taxes collected from offshore operators should be used to reduce the burden on high-street betting operators, who currently pay more in tax and levies than they generate in profits. This would mean the high-street betting sector could compete on a level footing with its digital competitors for the first time since internet betting began more than a decade ago.

Richard Glynn
Chief executive
Ladbrokes
London

Voting for police commissioners



* SIR - Your article on the plans for elected police commissioners in Britain rightly pointed out the danger of inconsistency facing an individual police officer, and thereby the legitimacy of the state, if an overt political slant is imposed on policing by appointing area directors ("Quis custodiet?", June 18th). A more fruitful approach therefore may be found in controlling the constable by addressing police socialisation and indeed the same government review includes the recommendation of relocating basic, higher training and credentialism into outside colleges.

However, my research on the meaning of police professionalism, which includes observing and questioning police recruiters, basic and higher training and promotion boards, reveals that it is less a matter of where these events take place but, crucially, who controls the curriculum.

I see no evidence that the police are relinquishing control of the curriculum, and thus ownership of the "police images of the law" that are critical to understanding police problems with the public.

Carl Harrison
Riberac, France

The way out for Greece



SIR - Once again you called for an orderly restructuring of Greek debt, and think that it would be "ruinous" for both Greece and the European Union if Greece were to be ejected from the euro ("If Greece goes...", June 25th). Ultimately, the only solution for Greece is one that promotes stronger output growth. Remaining inside the euro will do nothing for Greek growth prospects, whereas exiting and devaluing at least holds out some hope for the country, particularly if this is combined with economic reform that will be easier to undertake with a lower cost base.

Nor would a Greek exit be disastrous for the euro. The euro area must eventually develop into a fiscal union if it is to survive, yet it is all but impossible to see that happening as long as it involves German (and Finnish, Dutch, etc,) taxpayers taking on responsibility for the debts of Greece, let alone of Italy.

Southern Europeans should not have been in the euro in the first place. Only when they are out will the single currency truly flourish.

Gabriel Stein
Director
Lombard Street Research
London

SIR - The caption beneath your picture of Angela Merkel, as she charts Germany's difficult path on Greece and the euro crisis, places her politically "Between Scylla and Charybdis" ("Merkel's hazardous course", June 25th). This is apt, except in one respect: Scylla and Charybdis mark the entrance to the Strait of Messina and are in Italy. Does this portend rougher economic waters ahead?

Colin Leisk
Paris



SIR - So the British prime minister promises that he will be "fighting very hard" to ensure that his country stands aloof from schemes to assist Greece ("Told you so", June 25th). Gone are the days when Greece was hailed as one of Britain's valiant and staunch allies. A line from "Timon of Athens", a noble and generous soul abandoned by his friends when misfortune overtook him, seems appropriate:

What viler thing upon the
earth than friends,
Who can bring noblest minds
to basest ends!

S. Stathatos
Athens

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Thailand's election

A surprising new face

Yingluck Shinawatra must work out how to keep her better campaign promises-and quietly ditch some of the others



AFTER a long and tense election campaign, it was all over surprisingly quickly. By the afternoon of polling day, July 3rd, it was already evident that the Pheu Thai (PT) party had won by a landslide. At 7.45pm the party leader, Yingluck Shinawatra, appeared before the press to claim victory. She stood at a podium as prime minister-elect, amid a sea of jostling and ill-tempered photographers. She did not punch the air. For three minutes she stood calmly, unblinking, a faint smile on her face, giving a traditional *wai* greeting. It was great theatre, much like the rest of her slick and brilliantly effective campaign.

Early next morning, by contrast, her opponent, Abhisit Vejjajiva, the prime minister, accepted responsibility for his own side's disastrous showing and resigned as leader of the Democrat Party. Despite all the fears about riots and coups in the wake of the result, an eerie quiet descended on the capital-a portent, perhaps, of a calmer and more stable future for south-east Asia's second-largest economy.

The principal reason for this welcome anticlimax was the margin of victory, so large that no one could argue with it. Beating even the most optimistic predictions, Ms Yingluck scooped up over half the popular vote and amassed a total of 265 of the 500 seats in parliament. The Democrat Party, by contrast, despite all the advantages of incumbency, did very poorly. They won only 159 seats, whereas party bosses had hoped for 200. The numerous smaller parties were also eviscerated by Ms Yingluck; the largest, Bhumjaithai, had hoped for 50 seats but won only 34.

Even the ultra-royalist "yellow shirts", militant opponents of PT, have been forced to pack up and go home. They had urged supporters to tick "No Vote" on the ballot, but amid an impressive 75% turnout of eligible voters, this had a barely discernible effect. The day after the election the dispirited yellows pulled down their sprawling protest camp in the government district and melted away.

A close result, many feared, would have plunged the parties into weeks of messy horse-trading, with a weak and unstable coalition emerging at the end of it-rather like Mr Abhisit's government. Above all, such a scenario would have given the powerful army, which together with the yellow shirts is the biggest opponent of PT, an opportunity to force parties into an anti-Pheu Thai coalition against the democratic will of the people. This is how Mr Abhisit was installed as prime minister in the first place in December 2008. There were even faint worries that the army might attempt another coup, as it did in 2006 to oust Ms Yingluck's eldest brother, Thaksin Shinawatra, as prime minister.

Now, however, PT's majority is so decisive that even the army cannot argue with it-so far, at least. This means that Thailand can, with luck, look forward to a relatively stable political landscape for at least a while with Ms Yingluck as the country's first female prime minister; parliament will formally confirm her in around a month's time. And stability is what investors prize above all else. On July 4th many of those who had been nervously getting out of Thai bonds and shares as the election approached rushed back in, boosting the local stockmarket by nearly 5% on the day. It was a welcome sign of confidence in Thailand's immediate future.

The force is with her

Several factors explain PT's overwhelming victory. The party is, above all, the creature of Mr Thaksin, a billionaire businessman and former prime minister, now living in exile in Dubai as a fugitive from Thai justice. (He was convicted in absentia in 2009 for conflicts of interest, and last year the courts sequestered some of his "abnormal wealth".) He has dominated Thai politics for the past ten years, even from a distance, and helped guide the party's strategy at this election. The result is partly a vindication for him and his own colour-coded, die-hard supporters, the red shirts.

As his allies point out, this election was the fourth official victory at the polls for Mr Thaksin's political parties since 2001 (another election result was annulled, but he won that too). Three times, they say, opponents of Mr Thaksin in the "establishment", those elite forces around the army and the monarchy, nullified the democratic will of the people by using either the army to force him from office or the courts to dissolve his political party. Some red shirts thus see the election result as more than just a victory for PT. They see it as a vital triumph for democracy itself, in a country with a history of coups and an overbearing monarchy that is protected by strict lese-majeste laws.

As prime minister, Mr Thaksin championed the cause of the rural poor, mainly in the north. He introduced various effective and popular anti-poverty programmes, among them subsidised universal health care and a microcredit scheme for farmers. The beneficiaries have loyally stuck with him and his party, creating a strong grassroots political base for PT. This is exactly what the Democrat Party lacks, since it represents mostly the more affluent urban areas and the south. The party leaders, Mr Abhisit and his finance minister, Korn Chatikavanij, both Oxford-educated, can appear out of touch with ordinary voters.

However, PT also owes its success to the leadership and charisma-and beauty-of Mr Thaksin's younger sister Yingluck (see article). She not only energised the red-shirt base, but as a young, professional woman she also drew in new, unaligned voters. Woman politicians are still a rarity in Thailand, and her male opponents were unsure whether they should attack her or be gentlemanly. They ended up trying a bit of both, without conviction.

In policy terms, the PT team kept their focus on the economy. They dominated the agenda by focusing relentlessly on rising prices, offering more of Mr Thaksin's populist economic policies as a remedy.

Working together



Ms Yingluck's other great promise during the campaign was to close the violent divisions that have opened up in Thai society since the ousting of her brother in 2006. Street protests by the red-shirt pro-Thaksinites and the anti-Thaksin yellow shirts peaked in May last year, when more than 90 people were shot dead as the army and police cleared a red-shirt protest camp in Bangkok. Politics in Thailand has become dangerously polarised, ideologically and geographically. The elction results show the country apparently neatly divided between a red PT north and a blue Democrat south (see map).

So Ms Yingluck's attempts at reconciliation will be closely watched. She has already made a start by forming what will technically be a coalition; four of the minor parties will join PT to make up the new government, giving it 299 seats in total and a commanding majority in parliament. In fact PT won an outright majority, but the coalition will be a visible sign, Ms Yingluck argues, that she wants to work with others to "solve the country's problems". She has also promised to revitalise the Independent Truth and Reconciliation Commission, and to set up a new body to look at ways of bringing the perpetrators of some of the recent violence to justice.

Her work in this respect should be helped by the army's willingness to play along with PT, in exchange for a promise not to take revenge on the generals for the 2006 coup. Rumours abound that PT forged an informal pact with the army along these lines before the election.



Thaksin in the wings

The trickiest issue is what to do about her own brother. Many of the red shirts expect Mr Thaksin to return as soon as possible, but Ms Yingluck knows how inflammatory that could be, especially if he is granted an amnesty. She sensibly promises that she will follow the rule of law.

Although many Thais wish Ms Yingluck well on reconciliation, they also hope that she may quietly ditch some of her other campaign promises. The PT has pledged to build a "land bridge" in the south, reintroduce subsidies for rice farmers and hand out 1m PCs to children starting school; if all these were done at once, the country could not afford it. In particular, businessmen and economists have been warning against implementing a typically eye-catching pledge to raise the minimum wage to 300 baht ($10) a day. If introduced at the same flat rate throughout the country, this could be ruinously expensive for many small businesses, and stoke more inflation as employees seek to maintain their pay differentials.

Will Ms Yingluck, with her business experience, go along with this? She has indicated that she may be flexible. That is just one of the qualities she will need to keep Thailand calm and together.

Yingluck Shinawatra

Sister act

Good at business, nicely smiling, but a neophyte in politics

HER friends say that Yingluck Shinawatra is a quick learner. That explains, they say, why the 44-year-old businesswoman shows such poise when she has never run for office before. But she is not quite the ingenue she seems.

Ms Yingluck comes from an intensely political family. Her father was an MP and her elder brother, Thaksin Shinawatra, now in exile, was prime minister. On the campaign trail she surrounded herself with seasoned veterans from her brother's time in power; it looked very much like a family firm at work.

She gained her business experience from working for the family as well. Ms Yingluck ran the Shinawatras' principal money-spinner, Advanced Info Service, Thailand's largest mobile-phone operator, from 2002 until it was sold off in 2006, after which she ran the family property business. Her common-law husband, with whom she has one son, is also a businessman.

So rather than dwelling on her lack of political experience, she stresses how she will apply her nous to running the country. Confronting harsh economic conditions, she argues that this is precisely "the right timing for her skills". She will apply what she learned in the boardroom to the cabinet room. "I don't have to be smart in every area," she says, "but I know how to use and manage people."

And the person she will have to manage best is her eldest brother, still the de facto leader of her Pheu Thai party. At the start of the campaign Mr Thaksin called her his "clone", as if to reassure nervous party stalwarts about her. Ms Yingluck, for her part, acknowledges that she learned her "thinking and management style" from him, but insists nonetheless, "I will lead." Indeed, after her spectacular victory, Ms Yingluck has amassed her own political capital, regardless of big brother.

She remains to be tested when times get bumpy. During the campaign, she never put a foot wrong. Merely being a woman made her an instant novelty. Her sunny and optimistic disposition was expertly marketed by her minders, then sold to a Thai public ready for a break from the male-dominated and violent politics of the last few years.

But she was not required to do much either, other than smile and rehearse her sound bites. There were no sweaty TV debates with the prime minister or nerve-racking interviews with heavyweight journalists. To a great extent Ms Yingluck is an apprentice-now sitting pretty in the prime minister's office.

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Shutdown in Minnesota

A sign of things to come?

A state government runs out of money. Will the Feds be next?



ON THE steps of Minnesota's capitol building, beneath an enormous gilded statue of a triumphant charioteer entitled "Progress of the State", stand three incredulous Argentine tourists. Signs posted on the doors in front of them explain that the edifice is "closed until further notice", thanks to an impasse between the Democratic governor and the Republican-controlled legislature which has left the state without a budget for the fiscal year that began on July 1st. State-run museums, parks and highway rest-stops have been closed; the issuing of tax refunds, driving licences and grants for social work has been suspended and 22,000 state employees have been put on leave without pay. "Our government is no good," says one of the Argentines, "but at least it's still working."

This sort of "shutdown", in which less urgent services are suspended for lack of legal authority to keep them going, is not unheard of in America. This is Minnesota's second, after a nine-day hiatus in 2005. The federal government came to a halt in 1995, almost did so again this year, and may be about to do so once more (see article). Minnesota's present stand-off is attracting lots of attention thanks to the close parallels with the battle currently under way in Washington, DC. Control of the federal government, too, is divided between Republicans who would rather slash spending than raise taxes, and Democrats who insist that the rich, in particular, will have to pay a bit more to maintain an acceptable level of government services.

Both Mark Dayton, Minnesota's Democratic governor, and the Republicans who control both chambers of the state legislature can plausibly claim an electoral mandate for their intransigence. The Republicans took control of the legislature last year amid much tea-partyish talk about cutting government down to size. But at the same election, voters opted by a whisker for Mr Dayton, who had promised to balance the books in part by raising taxes on the richest 10% of Minnesotans. No wonder, then, that the two sides have been at loggerheads over Minnesota's projected $5 billion budget shortfall since taking office at the beginning of the year.

Mr Dayton originally proposed a 2:1 ratio of tax increases to spending cuts. He has since offered the reverse. He also said he was willing to limit income-tax rises first to the richest 2% of Minnesotans, and then to those earning over $1m a year-a mere 7,700 people. But Republicans continue to insist that they will not allow taxes to rise. Instead, they have suggested passing a bare-bones "lights on" bill to allow the state government to operate while they continue to haggle with the governor. He, in turn, has rejected that idea, saying a comprehensive deal is needed. The solution, one Republican state senator helpfully averred, was for the governor to resign. The new Republican legislators, the governor retorted, were "extreme". The two sides continue to talk, but say they are as far apart as ever.

Neither side seems to have a clear advantage in terms of public opinion. Minnesotans seem mildly exasperated by the situation rather than enraged. There were a few catcalls over the weekend at politicians marching in Fourth of July parades. A letter to a local paper says of legislators enjoying the holiday despite the shutdown, "May their burgers be burned and their brats roll off the plate into the sand." Some vandals at a state park scrawled "We broke in for free!" over a shuttered cabin, to the horror of local news outlets.

The response is muted in part because the most critical public services, including policing, schools and state-funded health care, continue largely unaffected, on orders from a local judge. Those functions, calculates David Schultz of Hamline University, account for more than two-thirds of the state budget. Just across the way from the capitol, a "special master" appointed by the courts has been hearing a torrent of appeals while the shutdown drags on.

The local haulage association wants highway rest-stops to be reopened to allow drivers to take the breaks required of them by law. Could the lorry-drivers not alter their schedules, or check into a motel, a representative of the governor asks? Next in line are charities for the deaf, requesting that hearing tests normally administered at birth continue; for refugees, hoping to keep providing translation for new arrivals who do not speak English; and for the homeless, trying to keep up payments for those lodged in private housing. The state historical society petitions for a skeleton staff of 16 to keep its artefacts secure and the animals on a rural property fed.

For now, argues Lawrence Jacobs of the University of Minnesota, the dispute is only affecting a small minority. But the longer it lasts, the more severe the consequences will become. Ever-increasing numbers of Minnesotans will find themselves denied routine services. Temporarily unemployed state workers will struggle to make ends meet. Businesses that serve the state government or have lots of civil servants as customers are already said to be laying off staff.

Mr Dayton seems to be banking on the fact that the entire legislature is up for re-election next year, whereas he will not face the voters again until 2014. But that may not prove the spur to compromise he imagines. The last time any Republican legislators went back on their word and voted for a tax rise, in 2008, they were ostracised by their party. Only one of the six state representatives in question won the party's endorsement at the subsequent election, and only two ended up keeping their seats. In Washington, too, many Republicans are more worried about a primary challenge than they are about the general election.

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Immigration

A warmer welcome in a colder state

A surge in immigration without the usual surge in concern

AT THE Minnesota state fair last year, nestled among the rides and the livestock displays, one snack vendor had an unusual offering: camel on a stick. Most of the meat was grilled, but some fried, in deference to local tastes. "It was a hit, there was a line; it was just beautiful," recalls Hussein Samatar, the founder and head of the Minneapolis-based African Development Centre. He saw it as a sign of how well the state's Somali community has become established since he arrived in 1994 as a refugee.

It is also a sign of Minnesota's more general embrace of immigration. According to a 2010 report from the Saint Paul-based Wilder Research, 6.5% of the state's population was foreign-born in 2008. That was well below the national figure of roughly 12%. But the rise in the number of foreign-born people in Minnesota has been dramatic; between 1990 and 2000 the immigrant population increased by more than 130%, compared with a 57% rise nationwide.

Yet Minnesota has largely avoided the backlash seen in states such as Arizona, which is racked with nerves about illegal migration over the state's southern border with Mexico, or Georgia, where legislators recently passed a strict new law aimed at rumbling as many illegal immigrants as possible.

The difference may be partly because, when it comes to immigration, Minnesota is more like Canada than the rest of the United States. Being far removed from Latin America, the main source of immigrants to the country in general, Minnesota has little cause to worry about unauthorised migration.

But it is also a matter of policy. The state has been a national leader in refugee resettlement programmes since the 1980s, and its main metropolis, the twinned cities of Minneapolis and Saint Paul, has adopted a series of initiatives aimed at supporting refugees of all kinds as well as regular migrants.

Both are sanctuary cities, for example, meaning that police are barred from asking about migration status during the normal course of business. They have also spent money on integration. Mr Samatar's centre, for example, specialises in helping African immigrants who want to start small businesses.

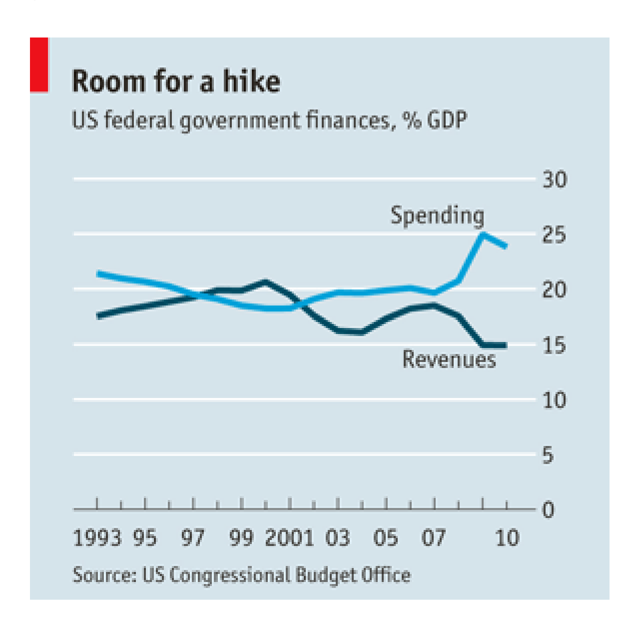
R.T. Rybak, the longtime mayor of Minneapolis, says that the city has encountered many of the same problems others have faced. Educating children with limited English in the public schools has been a particularly hard one. But before the wave of new arrivals, he explains, the city was ageing, mostly white and monoglot. Now it has a more international dimension. "Immigration is not easy, but it has an enormous upside in a global economy," he reckons. Other ageing cities should take note.

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The federal debt

Countdown

The row over the debt ceiling is going down to the wire



THE stand-off over America's debt ceiling has entered strange territory: pretty much everyone agrees the limit will be raised, but it is becoming ever harder to see just how. The Treasury reckons it will run out of cash on around August 2nd. But with time running short, the parties seem as far apart as ever.

Taxes are the sticky wicket. While both sides agree that the ceiling should be raised in conjunction with new deficit-reduction measures, they have fallen out over whether to use increased revenues to close part of the gap. The blame for this impasse falls mostly on Republicans. Eric Cantor, the leader of the Republican majority in the House of Representatives and the chief Republican negotiator in talks chaired by Vice-President Joe Biden, greeted a recent proposal to pair $2 trillion in spending cuts with $400 billion in new revenues by walking out on June 23rd.

Matters have been testy ever since, and the strain is showing. Rumours are flying that Tim Geithner, the treasury secretary and the last remaining holdover from Mr Obama's original economic team, is eager to step down once a debt deal has been

reached. Both Mr Geithner and the White House deny the rumours, but the constant battle with a stonewalling opposition has surely taken a toll.

Republican intransigence is difficult to fathom. Government revenues as a share of output are low by international standards and have fallen in recent years (see chart). A report produced in March by congressional Republicans noted an 85% to 15% spending-to-revenue split was the average for a successful fiscal consolidation. They have essentially achieved that; the $400 billion in revenue rises on offer is just 17% of the total proposal. And the president has since sweetened the deal. He backed away from an effort to lift marginal tax rates on the rich, offering instead to raise money by closing loopholes. Republicans have still demurred; they consider eliminating loopholes tantamount to raising taxes, though it could equally be argued that it is the same as cutting spending.

On July 6th, Mr Cantor reiterated that position; he is open to closing loopholes, he said, but only if they are offset by tax cuts elsewhere. Secret talks have taken place between Mr Obama and the House speaker, John Boehner, and the Democrats are said to be offering cuts of as much as $4 trillion, including to spending on Medicare and Medicaid and even on Social Security (pensions)-a key Republican goal. Yet there is great unease at all this on both sides. Some Republicans are clamouring to include still more in any agreement, including a cap on spending at 18% of GDP and backing for a balanced-budget amendment to the constitution. Both are anathema to Democratic leaders.

The White House, in turn, may be stiffening its strategy. Twice in recent days the president has publicly criticised Republican obstinacy and called for concessions from both sides. Meanwhile, Democratic operatives are exploring a "constitutional option". Some scholars have suggested that the debt limit may violate the 14th amendment, leaving the president free to ignore it come August 2nd. Mr Obama has declined to rule this out.

The president may calculate that these shifts will weaken the Republicans' position and bring them back to the table to talk about revenues. The risk remains that both parties may retreat to their trenches while the clock ticks down. Economists say a default would be catastrophic. To delay one, the Treasury would prioritise interest payments on the debt above other government obligations. But this too would carry significant economic costs. A new analysis by the Bipartisan Policy Centre finds that on running out of cash, the government would need immediately to slash spending by 44%. Cuts would hurt pensioners, public employees (including soldiers) and state governments, almost all of them already badly squeezed. The public outcry would surely force a rapid deal, but the economy would suffer serious damage in the meantime.

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Basketball on strike

Second down

NBA players join their NFL counterparts on the sidelines



Newly unemployed

WHEN the clock struck midnight on June 30th the number of jobless men in America increased by 450. Few, though, will pity these idle labourers. The average among them earned around $5m last year.

Their employers had long thought that too much. So the owners of the National Basketball Association (NBA) locked out their players after the two sides failed to reach a new collective-bargaining agreement. With the National Football League (NFL) in a similar state of abeyance, sports fans are becoming well-versed in American labour law.

As with the NFL, the NBA lockout comes at an inopportune time. The decision was taken just 18 days after an exciting championship that saw the league's most captivating (and skilled) villain, LeBron James of the Miami Heat, outplayed by a likeable legend, Dirk Nowitzki of the victorious Dallas Mavericks. That capped a season in which sales of tickets and merchandise, as well as TV ratings, were up.

"We had a great year in terms of the appreciation of our fans for our game. It just wasn't a profitable one for the owners," says David Stern, the league's longtime commissioner. He claims that 22 of the NBA's 30 teams are losing money.

As a result, team owners want fundamental changes to the economic structure of the league. For starters, that means replacing the current soft cap on players' salaries with a hard one that will do more to limit the contracts doled out by the wealthier clubs. They also want to see the league's revenues, which amounted to $3.8 billion last season according to *Forbes*, split up in a way that is much more favourable to them and less favourable to the players.

The players, in turn, accuse the owners of poor teamwork. They say that more revenue-sharing between the league's haves and have-nots could resolve the teams' exaggerated financial troubles. Much depends on whose numbers you believe.

In the end the players will probably have to make at least modest concessions on their contracts and salaries, but they have thus far rejected the owners' demanding proposals. About the only thing the two sides currently agree on is how far apart they are, raising fears that the next season may be cancelled altogether.

The NFL, on the other hand, looks to be moving closer to a deal that would end its four-month work stoppage. But that ought not to raise the hopes of NBA fans much. No NFL team appears to be losing money and the league's basic economic framework is not in dispute. The incentives facing each sport are also quite different. With pre-season games only a month away, further squabbling could cost the NFL as much as $200m for each missed week of practice. Compare

that with the NBA, where some owners may actually prefer to forgo another unprofitable season if it results in a better deal.

Public-sector pensions

Blood on the table, money in the bank

Atlanta's mayor and city council strike a deal to control pension costs

IN HIS inaugural address last year Kasim Reed, Atlanta's mayor, promised to fix "a pension system that is strangling our city." Around one in every five of Atlanta's general-fund dollars goes towards pension costs, which have grown from $55m in 2001 to $110m in the current fiscal year and were forecast to reach $160m by 2015. Twice during the past decade the city council boosted retirement benefits without figuring out how to pay for them; in early 2010 pension plans for the city's police, firefighters and general employees were only about 53% funded. Consequently, the unfunded part of the city's pension liability has grown from $321m in 2001 to $1.5 billion today. And a bearish market could drive the sum to $4.5 billion by 2020-a large figure by any reckoning, particularly for a city that has just approved a budget for next fiscal year of $547m.

Still, people do not like being told they must pay more and get less; faced with the task of telling Atlanta's police, firefighters and other employees just that, many politicians would have searched for the nearest desk to hide under. To his credit, Mr Reed did not hide, though he started small: last summer, just six months after his inauguration, he increased the period of time that needs to be worked to qualify for participation in the scheme, and reduced the multiplier (the percentage of an employee's wages used to calculate his pension benefits) for new recruits. That was relatively easy, however; the harder fight, in Atlanta as elsewhere, concerns the retirement benefits of current employees. That fight was long and acrimonious, but after three days of nearly round-the-clock negotiations among unions, city council members and the mayor, it was finally resolved on June 29th.

The new legislation, unanimously approved by the city council, distributes the pain relatively evenly. Current employees keep their defined-benefit pensions but must contribute an additional 5% of their salaries toward pension costs. (That contribution will decline as the pension plan's funding rises with the forecast savings.) New employees will be enrolled in a hybrid scheme consisting of a traditional defined-benefit pension and a defined-contribution plan similar to a 401(k). Eight percent of their salaries will go toward the former; at least 3.75% must go to the latter (the city will match employees' contributions up to 8%). Retirement ages will also rise, from 55 to 57 for police and firefighters and from 60 to 62 for other workers. Gina Pagnotta, who heads a union representing some of Atlanta's municipal employees, says "new employees will really be crucified", but that is only by the generous standards of existing public-sector pensions.

The frightful future

US cities' unfunded pension liabilities, June 2009

	Total, $bn	Per household, $	Year in which pension funds run out, assuming 8% rate of return
New York City	122.2	38,886	2021
Chicago	44.8	41,966	2019
Los Angeles	26.1	18,193	2027
Philadelphia	9.7	16,690	2015
Houston	9.1	10,804	2027
San Francisco	8.7	34,940	2032*
Boston	7.5	30,901	2019
Detroit	6.4	18,643	2023

Source: Robert Novy-Marx & Joshua Rauh, "The Crisis in Local Government Pensions in the United States"

*City and county

Overall the plan is forecast to save Atlanta $277m in the next ten years and $506m over 30 years. It will also let the city pay down some of its debt, which it has not done since 2009. Union officials did not like the plan, but they endorsed it. The city's big stick helped: if there was no agreement by the time the new budget was submitted on July 1st, Atlanta would have had to lay off as many as 180 city workers.

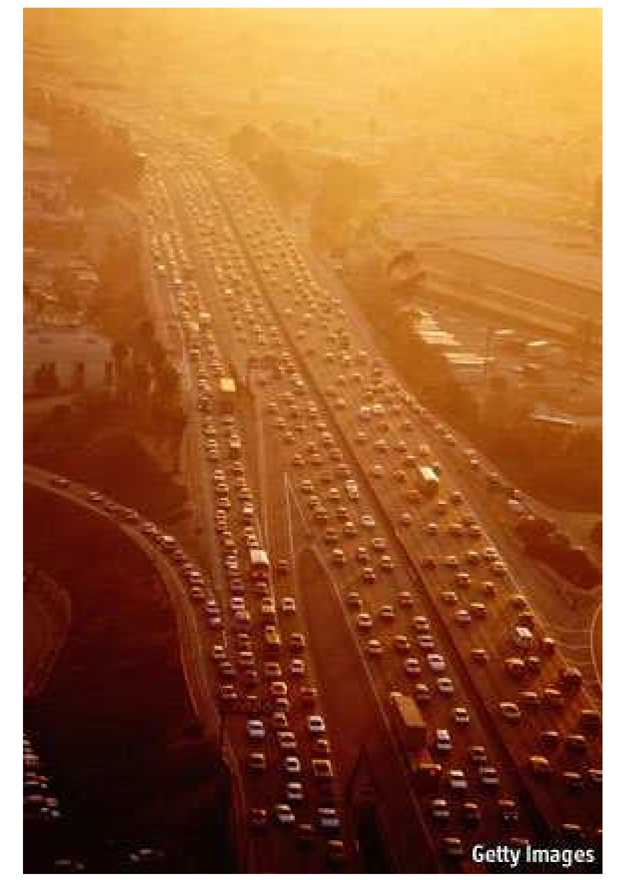
Atlanta's problem is severe, but hardly unusual (see chart). New York's unfunded pension liability tops $120 billion. Chicago's is nearly $45 billion. Baltimore's is $3.7 billion; if its pension plan returns 8% a year it will be insolvent by 2022. But Atlanta got a deal done; elsewhere unions and cities are still battling. Mr Reed advises other mayors to "spend whatever political capital is necessary to pass the reform" and "to have a very high pain threshold. This process was nasty, negative, laborious and vitriolic. If you don't have the stomach for it you need to develop one."

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Californian freeways

Carmageddon

In a car culture, even the brief closure of a freeway can spell chaos



It was bad enough before

THE car civilisation of southern California is famous for its discontents. On a good day, one merely wastes too much time in the car. On an average day, the id asserts its rage against the texting, eating, swerving masses obstructing and endangering one's path. On a bad day, an accident or closure cuts off a major artery and all plans are off.

Just such a closure will occur between July 15th and 18th. For 53 hours, workers will shut a portion of "the 405". The stretch is not long-ten miles northbound and four miles southbound-but it is strategic. Not only does it run along landmarks such as the Getty Centre, but it is also a mountain pass that connects two other freeways, the 10 and the 101, and, more generally, western and southern Los Angeles with California's north, from the San Fernando Valley to the central coast or Central Valley beyond.

Normally, on such a weekend, half a million cars might travel on this highway. Which is why it must be closed: for construction, as part of a plan to expand it. But for many Angelenos that means "carmageddon", as the closure has already been dubbed. For some it is a pun on the end of times, for others on the eponymous and violent video game involving vehicular combat, an appropriate metaphor.

Many businesses along the route, including the Getty museum, will close. Four big hospitals in Santa Monica and Los Angeles have complained that their doctors and nurses, not to mention patients, might not be able to get to emergency rooms. Others are wondering how, or whether, they will get to their jobs, schools, churches, temples, the airport or any fun. Most will take alternative routes, spreading the misery.

A European might ask why people don't bicycle instead, or take a bus or train. Yes, Los Angeles does have a weighty document, the "2010 Bicycle Plan", but nobody believes it will do more than the two previous, and equally grandiose, bike visions, proclaimed in the 1970s and 1990s. As for buses, they do exist, but only the poor seem to be on them and routes are being cancelled for budgetary reasons. Los Angeles's mayor, Antonio Villaraigosa, also has a pet underground project, called the "subway to the sea". But the general rule seems to be that public transport in Los Angeles has a great future, and always will.

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Gay rights in the South

Still far behind

New York's celebrations are not echoed down South



Annise Parker, an out-and-out rarity

A BATTLE is brewing in Batesville, Arkansas. The daily newspaper there recently omitted the name of the partner of a deceased gay man in its free obituary notice. The *Batesville Daily Guard*'s owner-manager told a grieving Terence James, that its policy is not to include anyone-gay or straight-as a survivor unless they are legally married. His only option? To buy a paid notice and list himself. But when a national gay-rights group tried to place an obit on his behalf, its money was rejected. The Centre for Artistic Revolution, an Arkansas equal-rights group, has been holding vigils in front of the newspaper's offices, and is starting a campaign aimed at the newspaper's advertisers.

The fight for gay equality in the South lags behind that in the rest of the nation. True Annise Parker, the mayor of Houston, Texas, is openly gay; but the local Fox affiliate there created a furore in April when it aired a segment asking viewers if television, including programmes like "Glee", was "too gay". The New York-based Gay and Lesbian Alliance Against Defamation demanded an apology, which never came.

On June 28th Arkansas's Democratic governor Mike Beebe made history and angered the state's gay community simultaneously. He became the state's first sitting governor to address a gay-rights group. But when asked during a question-and-answer session about gay marriage, Mr Beebe said he did not think the state would ever pass a law like New York's allowing gay marriage. He added that he believed marriage was between a man and a woman and stated that he opposes civil unions.

The South's conservative religious heritage, which often preaches against homosexuality, contributes to the region's sexual repression. In Pineville, Louisiana, a gay-rights group recently held a candlelight vigil outside Louisiana College, a private Baptist college, to draw attention to a student policy that condemns students who engage or advocate engagement in

"immoral" acts such as homosexuality or sex outside of marriage. The student handbook says that students will face disciplinary action if caught.

The Bible belt's views even resonate within the gay world. Last September, Mike Halterman launched the Deep South's first regional lesbian, gay, bisexual and transgendered magazine, *Out on the Town*. He says that "even within the LGBT community there are disagreements as to what topics and pictorials our magazine covers-or doesn't cover." Mr Halterman reckons the magazine's decisions wouldn't be an issue at all in San Francisco or Greenwich Village.

Throughout much of the South, the number of same-sex couples living together increased in the 2010 census, especially in metropolitan areas. But the South is also home to many anti-gay groups including the Mississippi-based American Family Association, which runs a network of 192 radio stations with 2m listeners. The Southern Poverty Law Centre in Alabama has labelled it a "hate group" because it spreads "known falsehoods" about homosexuality.

In small pockets across the South, life is changing for the gay community, partly thanks to the work of grassroots groups like The Centre for Artistic Revolution in Little Rock or the GLBT Advocacy & Youth Services, in Huntsville, Alabama. But don't count on any weddings any time soon.

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Food deserts

If you build it, they may not come

A shortage of healthy food is not the only problem



A NEW website from the US Department of Agriculture (USDA) shows that 10% of the country is now a "food desert". The Food Desert Locator is an online map highlighting thousands of areas where, the USDA says, low-income families have little or no access to healthy fresh food. First identified in Scotland in the 1990s, food deserts have come to epitomise urban decay. They suggest images of endless fast-food restaurants and convenience stores serving fatty, sugary junk food to overweight customers who have never tasted a Brussels sprout.

The USDA links food deserts to a growing weight problem that has seen childhood obesity in America triple since 1980 and the annual cost of treating obesity swell to nearly $150 billion. Accordingly, Michelle Obama announced a $400m Healthy Food Financing Initiative last year with the aim of eliminating food deserts nationwide by 2017.

Official figures for the number of people living in food deserts already show a decline, from 23.5m in 2009 to 13.5m at the launch of the website in May. Although this might on the face of it suggest that the initiative is off to a superb start, sadly it does not in fact represent a single additional banana bought or soda shunned. This is because in America, the definition of a food desert is any census area where at least 20% of inhabitants are below the poverty line and 33% live more than a mile from a supermarket. By simply extending the cut-off in rural areas to ten miles, the USDA managed to rescue 10m people from desert life.

Some academics would go further, calling the appearance of many food deserts nothing but a mirage-and not the real problem. Research by the Centre for Public Health Nutrition at the University of Washington found that only 15% of people shopped for food within their own census area. Critics also note that focusing on supermarkets means that the USDA ignores tens of thousands of larger and smaller retailers, farmers' markets and roadside greengrocers, many of which are excellent sources of fresh food. Together, they account for more than half of the country's trillion-dollar retail food market.

A visit to Renton, a depressed suburb of Seattle, demonstrates the problem. The town sits smack in the middle of a USDA food desert stretching miles in every direction. Yet it is home to a roadside stand serving organic fruit and vegetables, a health-food shop packed with nutritious grains and a superstore that University of Washington researchers found attracts flocks of shoppers from well outside the desert.

No surprise, then, that neither USDA nor the Institute of Medicine of the National Academies has been able to establish a causal link between food deserts and dietary health. In fact, both agree that merely improving access to healthy food does not change consumer behaviour. Open a full-service supermarket in a food desert and shoppers tend to buy the same artery-clogging junk food as before-they just pay less for it. The unpalatable truth seems to be that some Americans simply do not care to eat a balanced diet, while others, increasingly, cannot afford to. Over the last four years, the price of the healthiest foods has increased at around twice the rate of energy-dense junk food. That is the whole problem, in an organic nutshell.

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Lexington

Fat cats and corporate jets

Why is it so unrewarding for politicians to bash the rich in America?



THE corporate jet gets a lousy press. In the James Bond classic, "Goldfinger", the eponymous villain is sucked out of the window of just such an aircraft. In 2008 the bosses of Detroit's moribund car companies did themselves no favours when they flew in their gleaming jets to Washington, DC, to beg Congress for bail-outs (they drove the next time). And in his present face-off with the Republicans over the federal debt ceiling, Barack Obama is bashing the jets again, because to the man in the street the corporate jet is a perfect proxy for a fat cat. "I've said to Republican leaders, you go talk to your constituents and ask them, 'Are you willing to compromise your kids' safety so some corporate-jet owner can get a tax break?'."

Needless to say, Mr Obama is now accused by the aircraft manufacturers of scapegoating a successful industry that employs more than a million Americans and by the Republicans of launching a populist "class war". But this raises a question. If an authentic populist movement exists in the United States today, it is not composed of impoverished class warriors braying to squeeze the rich until their pips squeak. It is the tea-party movement, whose crusade to slash taxes and pare government to the bone far outweighs whatever distaste it might feel towards those magnificent fat cats in their flying machines.

Why is bashing the rich such an unpopular form of populism in America? The normal answer falls back on culture. Bill Galston of the Brookings Institution notes that Americans are repelled by the notion of inequality in worth or status. That men are created equal is, after all, "self-evident". They are, however, far less perturbed by unequal wealth, a form of inequality that is the inevitable product of the free-market system in which most still profess an abiding faith. According to Tom Smith, director of the Centre for the Study of Politics and Society at the University of Chicago, surveys still show Americans to be more sympathetic than Europeans to the idea that unequal pay encourages people to work hard, for example, and less sympathetic to the idea that governments should try to smooth such inequalities out.

That said, you might think that the normal answer would no longer do in such abnormal times-after a great recession and with 14m people still looking for work. And, sure enough, every week brings a flood of complaints in the media about the rich getting richer while the incomes of the middle class stagnate or fall. A survey for the *New York Times* has just reported that the median pay for top executives at 200 big companies last year was little shy of $11m a year-a mouth-watering 23% rise since 2009. Joseph Stiglitz, the holder of a Nobel prize in economics, claimed in *Vanity Fair* that the top 1% of Americans were taking in nearly a quarter of the nation's income and controlled 40% of its wealth, though others dispute his numbers.

As to whether such disparities should matter, that question has puzzled philosophers at least since the Enlightenment. This column proposes no definitive answer this week. The point here is only that Americans do not seem to mind about the widening inequality of income and wealth as much as you might expect them to in current circumstances. By and large, they have preferred opportunity to levelling; equality of opportunity rather than equality of outcome. The trouble with this is that America is a long way from providing equal opportunity. Children born into the bottom fifth of the income

distribution are nearly five times as likely to end their lives there as those from families in the top fifth. Indeed, social scientists are no longer sure whether it is still easier to climb the ladder in the "classless" United States than it is in the supposedly class-hobbled lands of Western Europe.

What are vote-seeking politicians to make of this? That the American people appear to have kept faith in the hardest of times with the idea of leaving it mainly to markets rather than governments to allocate life's material rewards strikes many Republicans as a marvellous thing-the glorious opposite of what happened in the 1930s, when the economically stricken turned to government for succour. In the case of the recent collapse, runs the Republican argument, misplaced government intervention-such as the egalitarian nonsense of extending credit for home-ownership to those who could not really afford it-was at least as much to blame as the excesses of the private sector. That, to judge by the eruption of the tea-party movement, is the verdict of many non-aligned Americans too. So the Grand Old Party is betting on this anti-government wave restoring it to power in 2012.

Not so exceptional, after all?

There are those on the Democratic side who urge Mr Obama to place precisely the opposite bet. His great mistake, they say, is failing to see that, beyond the din the tea-partiers make, most Americans deeply resent the bailing-out of the bankers and the rest of the undeserving rich who led the economy to the abyss, and would rally to the president if he only found the courage to mete out the punishment these villains deserve. Only thus can he summon up a populist wave for himself and ride it to re-election.

And yet Mr Obama, as is his wishy-washy wont, is not biting. He still plans to end the Bush-era tax cuts for those earning more than $250,000. But for all his occasional digs at the fat cats and their jets, this president is not and will probably never be the avenging egalitarian the left of his party dreams of. His own bet seems to be that in the matter of inequality the American people are less exceptional than they like to think they are. They might be unusually tolerant of big gaps between the rich and poor, but they expect the rich to pay their way and the state to offer a helping hand to those who cannot rise without one. This middling bet might not be the most exciting reading of America's mood. But it may be the shrewdest path to re-election.

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Politics in Venezuela

The Bolivarian patient

Venezuela's president returns, but his illness raises many questions about the country's political future



HUGO CHAVEZ does resurrection rather well. On June 30th, haggard and grim-faced, Venezuela's president admitted in a 15-minute video recorded in Cuba that he was receiving treatment after the removal of a cancerous tumour. Although he claimed to be recovering well, his language belied the optimistic message. He spoke of having faced an "abyss" and of the "steep path" back to health. During the 24 days he spent in a Havana hospital, no medical bulletins were issued, despite the fact that he spent hours under anaesthesia and four days in intensive care. No interim president was sworn in.

The lack of information on his condition led many, both friend and foe, to assume the worst. But in the early hours of July 4th a much more cheerful Mr Chavez arrived back unexpectedly in Venezuela. Pronouncing himself, via Twitter, "at home and very happy", he summoned his followers to greet him at the presidential palace later in the day.

Twice before in the past two decades the former army officer has been out for the count. In 1992 he was jailed after leading a failed coup attempt against an elected government. Ten years later he was briefly ousted from power, only to return in triumph less than two days later. He invoked both these memories in his video message from Cuba, suggesting that once again he would overcome adversity.

He badly wanted to return before July 5th, the 200th anniversary of Venezuela's declaration of independence. For Mr Chavez, who venerates Simon Bolivar, an independence hero, the date holds an almost mystical significance. "I couldn't fail to show up at the bicentennial celebration," he said from the palace balcony. But he added: "Let no one believe that my presence here means we have won the battle" against cancer. Rather than presiding in person, he appeared at the independence-day celebration via video link.

Mr Chavez may well make a full recovery. Nevertheless, the events of the past month-and above all the secrecy surrounding them-raise doubts as to whether he will be fit enough to campaign for another term in a presidential election due in December 2012 (in 2009 he won a referendum abolishing term limits). That has heated up an incipient battle for the succession.

Diosdado Cabello, a former vice-president who as an army officer took part in the 1992 coup attempt, leads a powerful faction on the right of Mr Chavez's United Socialist Party of Venezuela (PSUV). His rivals include Nicolas Maduro, the foreign minister, and Elias Jaua, the vice-president and former student radical who has been part of the inner circle for much of Mr Chavez's 12 years in power. The president's elder brother, Adan, governor of their home state of Barinas, is another potential contender. He bid for attention while the president was in hospital, by saying that force, not just elections, might legitimately be used to retain power. Adan, along with Hugo's daughters, appeared on the palace balcony when the president returned, as ministers were forced to watch from below. A cabinet reshuffle is in the works, according to Mr Jaua.

While the president convalesces, he will need to demonstrate that he still has fire in his belly, or ambitious PSUV faction leaders may well openly start to conspire against one another. A former PSUV leader, the late General Alberto Muller Rojas, once described the party as a "nest of scorpions". It would be characteristic of Mr Chavez if he now unleashed some radical measures, such as a new wave of expropriations of private companies. Cuba's Fidel Castro, Mr Chavez's mentor and ally, wrote this month that the foes of Venezuela's president face "surprises". But Mr Chavez's ailment has also been a nasty surprise for Cuba, which relies on him for cheap oil (see article).

Even before his illness, Mr Chavez faced a battle in next year's election. The economy is only just emerging from a two-year recession. Together with inflation, crime and collapsing public services, that has sapped his support. Polls still give him an approval rating of close to 50%. Fully fit, Mr Chavez is a formidable campaigner. But without him, the "Bolivarian revolution" looks doomed. "Without Chavez, there's no revolution nor anything resembling one," Mr Cabello said in March.

Venezuela's opposition, too, must adapt to these uncertainties. Gathered in the Democratic Unity coalition, it plans to select a presidential candidate in a primary in February. But if Mr Chavez is unable to contest the election, and especially if the PSUV were then to split, some opposition leaders might be tempted to go it alone. There have been calls to bring forward the date of the primary, but they have so far been rejected. The opposition has stressed that the constitution must be respected; it called, without success, for Mr Jaua to take the reins temporarily.

Over the past 12 years Mr Chavez has concentrated power in his own hands. Other nominally autonomous institutions, such as the legislature and the courts, are led by acolytes, as is the army and the state oil company, PDVSA. Saying that he wanted to rule until 2031, the president has been careful not to designate a successor. He has made sure that he is the only arbiter. If he can no longer play that role, turbulent times lie ahead.

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Cuba and Venezuela

If Hugo goes

Raul Castro searches for other lifelines



The ruling brothers grow anxious

JUST when they were beginning to get used to the daunting prospect of life without Fidel Castro, Cubans are now being forced to consider another, even more daunting, possibility: life without Hugo Chavez. Venezuela's president may well make a full recovery from the cancer for which he was operated on in Havana last month, but he has been reminded that he is mortal. And he may not remain in power beyond a presidential election next year (see article). Venezuela apart, nowhere would his departure from office be felt more strongly than in Cuba.

Mr Chavez subsidises Cuba to the tune of around $3.5 billion a year, by sending it an estimated 115,000 barrels of oil a day (around two-thirds of its consumption). Cuba pays in kind, in the form of 40,000 doctors, intelligence and security experts and other workers stationed in Venezuela. In addition, Mr Chavez is putting up money for infrastructure projects on the island, such as the expansion of an oil refinery at Cienfuegos. Venezuela is also Cuba's top trading partner.

Venezuelan aid has been the biggest single factor in helping the communist island emerge from the catastrophic slump that followed the demise of its previous sponsor, the Soviet Union, in 1991. Adult Cubans remember the early 1990s as a traumatic time of food and fuel shortages. Might such penury return?

Were Mr Chavez's opponents to take power in Venezuela, they would almost certainly cut aid to Cuba, not least since they face pressing needs at home. Cubans could expect widespread shortages. But things would not be quite as bad as in 1991. Then Cuba had become dependent on selling sugar to the Soviet Union at an inflated price. Now the economy is more diversified: the island is producing more oil; and tourism, nickel and remittances from Cuban-Americans have all become important sources of foreign exchange.

Raul Castro, who succeeded his brother as Cuba's president in 2008, has shown signs of wanting to be less dependent on Venezuela. Whereas Fidel and Mr Chavez are close friends-the two were photographed talking, both dressed in convalescent tracksuits, after Mr Chavez's surgery-Raul, a quiet and orderly man, seems ill at ease with the boisterous Bolivarian. In 2009 Raul sacked Carlos Lage, Fidel's prime minister, who was particularly close to Mr Chavez (in 2005 Mr Lage had declared that "Cuba has two presidents, Fidel and Chavez").

Cuba has recently sought investment from visiting delegations from China (which has offered a multi-billion-dollar credit line), Brazil and India. Raul is trying to cut food imports by leasing land to private farmers. His other reforms, under which at least 221,000 licences for small businesses have been issued since October, may make the island more attractive for Cuban-Americans to visit or retire to.

But Cuba's main hope of economic independence is the Scarabeo 9, a $750m drilling rig built specially in China with no American parts (to avoid falling foul of the United States' economic embargo against the island). It is due in Cuban waters by the end of the year, contracted by Spain's Repsol to drill an exploratory well.

The United States Geological Survey, a government scientific body, reckons that the seas around Cuba hold 4.6 billion barrels of oil. But they lie under very deep waters. Repsol struck oil there in 2004, but decided extraction would not be profitable. Any new discovery would take years to exploit. If Raul's reforms gather force, by then Cuba may be a rather different place.

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Security in Colombia

Never-ending

The FARC is not finished yet



AS DEFENCE minister for almost three years under President Alvaro Uribe, Juan Manuel Santos led the crackdown on the guerrillas of the FARC. Their numbers fell from around 18,000 in 2002 to 8,000, and they were driven from areas in central Colombia that they had held for decades. Soon after Mr Santos took over as president last August, the security forces killed the FARC's top military commander, Jorge BriceÃ±o (*nom de guerre*,"el Mono Jojoy") in a ground and air operation that destroyed his headquarters.

Now there are some worrying signs that the FARC is bouncing back. Those who remain in the outfit are the radicalised hard-core, according to Rafael Guarin, the deputy defence minister. They are concentrating on attacking security forces using landmines and hit-and-run snipers. Last month the FARC kidnapped four Chinese oil workers and ambushed an army unit guarding a bridge in Caqueta department, killing two civilians. On June 29th the guerrillas erected a roadblock on the main road between Medellin and the Caribbean coast. When police arrived, they detonated a bomb, killing a police chief.

According to Mr Santos, these attacks are a response to pressure from the state. On July 3rd the government said that Alfonso Cano, the FARC's commander in chief, had narrowly escaped a raid on his camp three days earlier, for the third time in recent years. But the ELN, a smaller and often underestimated guerrilla group with around 2,000 members, is also staging a modest comeback. It has ended an internecine war with the FARC and increased its involvement in the drug trade. Last month it placed a car bomb in Cauca, killing one person; it killed three soldiers in a clash in Norte de Santander; and it is alleged to have massacred eight civilians in NariÃ±o.

The uptick in guerrilla violence has been paralleled by a rise in activity by former paramilitary groups, recycled as criminal bands. They are behind recent attacks on human-rights activists and some massacres of villagers. Kidnapping is up 16% in 2011, and Mr Santos himself says he does not believe the low official figure for extortion "because of what I hear and perceive."

These attacks come as the army's morale is being undermined by several judgments by Colombia's courts, some of them questionable. One ordered the government to pay almost $1m to three conscripts who were wounded in a FARC attack on an army base in 1996, in which 31 soldiers were killed and 60 captured. The court ruled that the state had failed to prepare the soldiers properly or to protect them. The Supreme Court determined that information found on computer hard drives in a raid on a FARC camp just over the border in Ecuador in 2008 was not admissible, barring the prosecution of several politicians for alleged ties to the guerrillas. Last month an Ecuadorean judge charged five Colombian generals over the raid. Colombia does not recognise Ecuadorean jurisdiction in the case.

Critics of Mr Santos, who increasingly include Mr Uribe, say the government has let down its guard on security. "Not true," says the president, citing the capture of more than 10,000 criminal suspects since he took office. Colombia remains much safer than it was a decade ago, and the murder rate continues to decline. Foreign investment is pouring in. But Mr Santos has acknowledged that Colombians feel less safe than they are in reality. Although 76% of respondents in poll last month by Invamer-Gallup approved of the president's performance, 62% disapproved of his handling of security. That in itself is a small victory for the FARC-and a reverse for Mr Santos.

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Competition policy in Brazil

Too little, too late

Merger plans puts weak antitrust enforcement in the spotlight



A BATTLE is escalating between two giant French retailers, Carrefour and Casino, over who gets to join up with Pao de Acucar, Brazil's biggest supermarket chain. On June 28th Abilio Diniz, Pao de Acucar's chairman, revealed plans to merge with Carrefour's Brazilian operations. That came as news to Carrefour's arch-rival, Casino, which has been a part-

owner of Pao de Acucar since 1999. This week Casino's boss, Jean-Charles Naouri, flew to Brazil to denounce the plans, which he dubs "expropriation", and to berate BNDES, the national development bank, which offered to finance them.

If the deal goes through, the combined company would have 27% of the national retail market, and 69% of Sao Paulo state's. Given the risk of such concentration, it is hardly surprising that the deal's fate may rest with the government. But the verdict on the merger will come from the BNDES-whose president, Luciano Coutinho, now says it will only back the deal if Casino is reconciled-rather than from CADE, the competition authority. The outcome of the fight could hinge on any number of strategic, legal or political factors. Consumer welfare, however, will not be among them.

Antitrust policy has long been weak in Brazil. In the 1990s the country started opening its economy and privatising firms in order to increase competition. But a study in 2007 by Edmund Amann of the University of Manchester and Werner Baer of the University of Illinois found that 15 years later, the market share of the top four companies in most sectors had become even greater.

CADE is crippled by rules that stop it from acting until after deals have gone through. It can then impose conditions, or even order mergers unpicked if it thinks them irredeemably anti-competitive. But by then it is often too late.

In 2004 CADE ordered Nestle to sell Garoto, a chocolate company it had bought two years earlier. Nestle is still fighting that ruling in court. Last month CADE threatened to undo the 2009 merger that formed Brasil Foods, the leading firm in Brazil's processed-food market. Even if the regulator sticks to its guns (a ruling is due on July 13th), the firm can file a court challenge.

A bill that would require pre-approval from CADE for mergers that could damage consumers was presented to Congress in 2005. However, progress has been glacial. Even if the pace picks up, it will be too late to affect the proposed Pao de Acucar deal.

In some cases the state actively promotes industrial concentration, to help firms gain the scale to compete abroad. In the 1990s a privatising government got around the scarcity of capital and know-how by coaxing state-owned pension funds to co-operate with private companies, and pushed public banks into giving them subsidised loans. Today Brazil's firms are stronger and its capital markets deeper. But the government continues to intervene. With Carrefour, the BNDES is seeking to fund a merger between two of the largest forces in retail-perhaps to stop Casino from taking sole control of Pao de Acucar, as it could otherwise do in 2012.

A side-effect of such activity is complex corporate structures with nebulous state involvement. According to Sergio Lazzarini of Insper, a business school in Sao Paulo, around half of listed Brazilian firms participate in cross-holdings or layered holding companies. And of the 600-odd biggest, about 100 get a chunk of their capital from big state entities. The more complex a company's structure, Mr Lazzarini finds, the less consumers and private shareholders benefit from public investment in it.

The ruling Workers' Party has maintained orthodox domestic economic policies. However, it has been more interested in creating national champions than in fostering competition. The result, says Mr Lazzarini, is that businesses "can consolidate markets, reduce competition and increase their profits with government money."

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Gujarat's economy

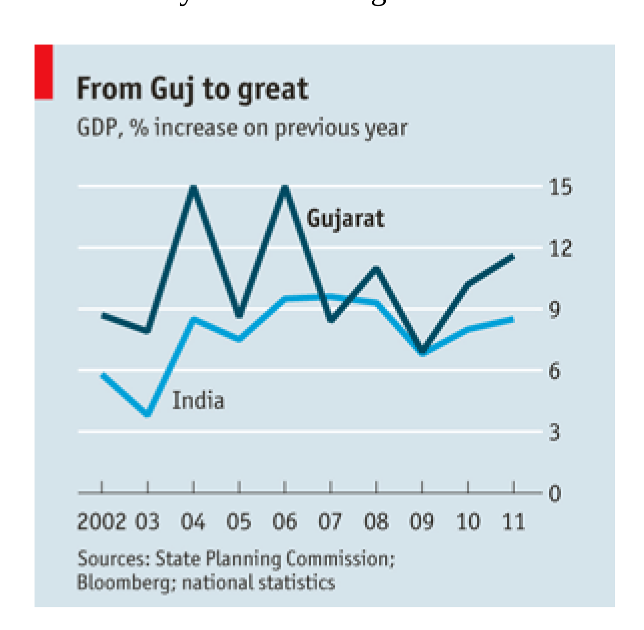
India's Guangdong

A north-western state offers a glimpse of a possible industrial future for India



SO MANY things work properly in Gujarat that it hardly feels like India. In a factory packed with kit from Germany and China, slabs of rubber and bags of carbon black are turned into tyres. After being X-rayed for imperfections, they will be distributed across India or sent for export within three days. Sandeep Bhatia, a manager for CEAT, the firm that owns the project, says it took only 24 months to complete, including the normally fraught process of buying land. There is constant electricity, gas and abundant water. The state government, he says, kept red tape to a minimum, did not ask for bribes, and does not interfere much now.

The tyre plant is not the only sign of prosperity in Gujarat. A nearby village may have fodder strewn all over its alleys and mice scuttling across shampoo sachets in the local store, but it also has satellite dishes poking up from the roofs and power metres on the wall of every house. Most of the men, the villagers say, work for small industrial firms for a wage about 50% higher than they would get in the fields. The road to Ahmedabad, Gujarat's main city, is privately operated and boasts four lanes. It passes through a countryside that is visibly industrialising.



With a long coastline and too little rain for decent farming, Gujarat has always been famous for its traders. When it was hived off from Bombay to form a separate state in 1960, "the question was how Gujarat would survive," says Narendra Modi, who has been chief minister since 2001. These days Gujarat accounts for 5% of India's population but 16% of its industrial output and 22% of its exports. Its growth has outpaced India's (see chart) and it wins accolades from business people. A recent comparison of Indian states by McKinsey, a consultancy, waxed lyrical about Gujarat. It might yet play the role of industrial locomotive for the country, as Guangdong province did for China in the 1990s. There is lots of

excited talk about exporters switching from China to India. Sanjay Lalbhai, the chairman of Arvind, a textiles maker and clothing retailer based in Ahmedabad, says such a move is "imminent" in his industry.

Chinese-style, big-ticket projects are part of Gujarat's formula, including refineries and ports, but so are networks of smaller firms and foreign companies which have now achieved critical mass in industries such as cars and pharmaceuticals. The state government uses the usual tricks to try to jump-start growth, including special economic zones. But more important, it has provided the bog-standard things that businesses pray for across India but often do not get-less onerous labour laws, passable roads, reliable electricity and effective bureaucracy.

Against the charge that some people have been left behind, Gujarat can point to reasonable growth in agriculture, helped by irrigation schemes. But the state has a black spot, which dates back to 2002 and an outbreak of sectarian violence. As many as 2,000 people (the official toll is lower) were killed in a month of riots, most of them Muslims. Some say Mr Modi and the state government were complicit in the violence or could at least have done more to stop it.



Compare the population and GDP of Indian states to those of entire countries using our

Might prosperity help heal the wounds? In Juhapura, a district on the outskirts of Ahmedabad dominated by the Muslim minority, a young mason grows angry when asked if he feels lucky to make 250-300 rupees a day ($6-7), saying he only gets work for 15 days a month. Others are more content. A bearded man down the road says his party-decoration business is booming. Behind the till of a shop selling top-ups for mobile phones and stationery for the nearby school, a man in a skull cap says life has undoubtedly improved, although his 82-year-old father, sitting in a deckchair, complains that everything went to the dogs when the British left.

Gujarat could be a vision of India's future, in which manufacturing flourishes, soaking up rural labour. Its economy is expected to grow by double digits, even as India's rate slows to 7-8% this year. The state may also be a springboard for Mr Modi, who may contest the national leadership of the opposition Bharatiya Janata Party, perhaps after state elections due in 2012. Mr Modi is enigmatic on this subject. He has yet to shed his polarising image, but he has at least built up an enviable record on the economy.

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The Philippine economy

The untouchables

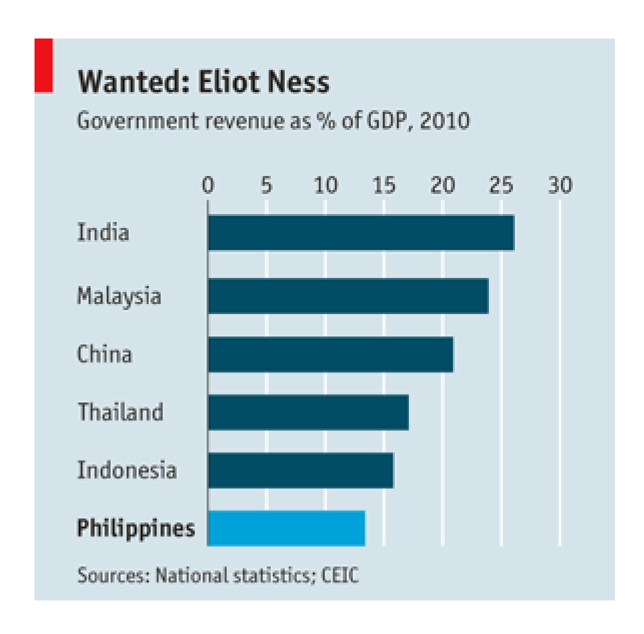
Benigno Aquino's first year has been good for the state coffers



Better to tax the stuff

WHEN he was a boy President Benigno "Noynoy" Aquino was struck by the story of Al Capone, a gangster who terrorised America during the Prohibition years. This monster, Mr Aquino recalled in a speech to the Bureau of Internal Revenue (BIR) last year, was eventually convicted not for murder and mayhem, but for failing to pay his taxes.

The president hopes his country's taxmen (sometimes called "revenuers", a word reminiscent of the Capone era) will help him slay the monsters of corruption and fiscal overstretch that now prey on his country. The government's revenues last year amounted to just 13.4% of GDP, much lower than its peers (see chart). It collected less than a fifth of the value-added taxes (VAT) it was owed, according to Neeraj Jain of the Asian Development Bank. That is one reason why it could afford to spend less than 3% of GDP on education last year and only 0.6% on health.



Mr Aquino campaigned for office on the slogan, "If no one is corrupt, no one will be poor". He has governed on the assumption that unless everyone is seen to pay taxes, no one will. Since his term began, the BIR has pursued 51 cases of

tax evasion, one a week. A website and Facebook page invite Filipinos to snitch on tax cheats, smugglers and officials guilty of graft or a suspiciously lavish lifestyle. The site names and shames people under investigation, including one of the bureau's own lawyers, who acquired five lots of land, a flat and two cars on a monthly salary of under 23,000 pesos ($540).

These sticks are combined with a carrot. The government has made it easier to file tax returns online and is teaching its taxmen to see taxpayers as clients to be respected, not birds to be plucked. In the past officials would avert their eyes if taxpayers greased their palms. The customs official in charge of the government's Run-After-The-Smugglers (RATS) campaign is himself being chased by a steel company, which alleges that he demanded a bribe to release shipments.

The government's efforts have met with some early success. Revenues increased by 18% in the first four months of 2011, compared with a year earlier, almost twice the pace of nominal GDP growth. That helped persuade Fitch, a ratings agency, to lift the government's credit rating last month to BB+, one notch below investment grade. "It would be overly cautious to rule out...some early signs of progress," said Fitch's Andrew Colquhoun, cautiously.

His circumspection is understandable, because past campaigns to raise revenues have faltered. The previous government broadened the VAT base in 2006, only to narrow it again in 2009. In other countries governments have found it easy to generate quick results through manipulation, says Mr Colquhoun, such as leaning on big companies to pay their taxes early to flatter the revenue figures. But he sees no evidence of such gimmicks in the Philippines.

The government hopes to increase revenues to 16-17% of GDP over the next four years. Plugging leaks in the tax bucket will not be enough. It also needs a better bucket. Raising rates is not necessarily the answer: with a VAT of 12% and corporate income tax of 30%, taxes are not low. But they are riddled with exemptions. Half of the tax breaks for investors favour investments that would have been made anyway, according to Mr Jain.

The Philippines imposes excise taxes on alcohol, tobacco and petrol that add many lines to the tax code without adding much to coffers. Spirits are taxed at all sorts of rates, depending on what they are made from and even how old the brand is. They are fixed in pesos not percentages. From 2.6% of GDP in 1997, they now snare only about 0.7%, according to Mr Jain. Converting them into simpler percentage rates is an overdue reform. Bans on alcohol, as America discovered to its cost in the 1930s, only breed corruption. But taxes on alcohol should be as stiff as a good gin.

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Non-profit organisations in Japan

Charity at home

Japan, long hostile to non-profit groups, is easing up

AFTER the earthquake and tsunami on March 11th, volunteers flooded north to the stricken area. One group from Tokyo struggled to find an evacuation centre willing to accept its offer of food because, coming from out of town, it lacked the local government's imprimatur. Another complained that centres turned it away because it did not have enough food for everyone. Prefectural police refused to recognise special passes that were meant to let aid groups use the deserted expressway, forcing them on to congested side-roads.

The disaster brought about a surge of volunteerism in Japan, as did the Kobe earthquake in 1995. Around 480,000 volunteers from non-profit organisations (NPOs as they are known) streamed into the Tohoku region. Yet the figure might have been higher had the government not advised people to keep away and made life hard for those relief organisations that showed up anyway.

Japan has long been uneasy about non-profit organisations. It lacks a tradition of private philanthropy. Support for the needy is often expected to come from the family. Officials tend to regard NPOs as meddlesome amateurs.

So, even though public attitudes are changing, the law and formal attitudes tend to lag. Qualifying for favourable tax treatment, for example, which is almost guaranteed for charities in the West, is nearly impossible in Japan. Of 90,000 NPOs, only 223 have a special tax status. That compares with 160,000 in Britain and 1.8m in America.

Peace Boat, for example, organised more than 3,000 volunteers to help in Tohoku's recovery. Though founded almost 30 years ago, it never got special tax status because the process is so cumbersome and opaque, says its director, Tatsuya Yoshioka. Hundreds of pages of documents must be filed every few years. Organisations have to get the approval of a ministry related to their area of activity, giving bureaucrats a virtual power of veto over their operations. And NPOs must spend 70% of their donations over five years, meaning they cannot build up large foundations. In practice, they must live from hand to mouth.

Lucky breaks

Now, though, the biggest of these problems is set to change. A law passed on June 22nd which goes into force in two stages, on June 30th and next April, will significantly ease the process of getting favourable tax status. Certification will be done by municipal authorities rather than the national tax agency, which tends to see every NPO as a net loss to the country's coffers. An excessive "public support test" that hampered eligibility will be scrapped. Contributions will be almost 50% tax-deductible, compared with less than 10% now.

Akira Matsubara of an NPO lobby group calls it a dramatic change. He expects as many as 70% of NPOs to get the new tax status. Mr Yoshioka of Peace Boat is equally excited. The change may help create a culture of philanthropy in Japan, he says.

Before the tsunami, the legislation had been mouldering away, as so many Japanese reforms do. The crisis made it a priority. Officials are slowly coming to accept NPOs because they must. Tax receipts have been falling for years as the population shrinks. The growing ranks of the elderly are demanding more services. This could lead to a flowering of Japanese public-interest groups, says Mr Matsubara. "The government has no other choice but to cut social services and shift responsibility on to the NPOs."

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Cricket in Sri Lanka

More than just a game

Star batsman, smart operator



Sangakkara hits out

CRICKET is supposed to uphold the virtue of fair play. The preamble to the Laws of Cricket talks about "the spirit of the game"; their English custodians even hold an annual "Spirit of Cricket" lecture at Lord's in London, the game's home. In Sri Lanka, cricketers have long been a source of inspiration for a troubled island: not just for their sporting prowess (the national team punches far above its weight) but also for their capacity to unite. During the years when Tamil Tiger terrorists fought a bloody war against the Sinhalese-majority state, the national team's most successful player-the most successful bowler the sport has ever seen-was a joyful Tamil, Muttiah Muralitharan.

But in Sri Lanka, it seems, politics can spoil anything, even cricket. On July 4th, giving the annual spirit of cricket lecture, Kumar Sangakkara, captain of the national side until April and still a test player, said "a mad power struggle" was destroying the accountability, transparency and credibility of Sri Lanka's cricket administration, called Sri Lanka Cricket (SLC). He said the solution might lie in a proposal by the International Cricket Council, the sport's governing body, to suspend national boards where there was direct political interference and allegations of corruption and mismanagement. As SLC has been run by government-appointed committees since 2004, Mr Sangakkara's criticism will hurt.

In 2010 the then sports minister rated Sri Lanka's cricket body as the third-most corrupt institution in the country (behind education and the police). He was later sacked. Mr Sangakkara is the first active player to criticise the way the sport is run, and to an international audience. At Lord's he got a standing ovation. At home he did not.

Sri Lankan law empowers the sports minister to sack elected administrative bodies (such as SLC), and appoint temporary committees instead. He even gets to approve who plays in the national side, overruling professional selectors. Unofficially, he takes recommendations from the president. Control of cricket, which brings in oodles of money and commands rapturous popular support, is seen as too important to be left to the vagaries of elections. In practice, interim committees have become the norm.

In Sri Lanka Mr Sangakkara is renowned for his integrity as well as his cricketing skills. The media welcomed his views as a reflection of public fury at the blatant politicisation of a national obsession. The *Island*, a pro-government newspaper, said he had spoken home truths to "inefficient, corrupt Sri Lankan cricket administrators and pompous, overbearing political nincompoops".

The government was less charmed. The sports minister, Mahindananda Aluthgamage, rushed into a late-night meeting with the president, Mahinda Rajapaksa. Sounding flustered, he told reporters that Mr Sangakkara had been out of line: "He has to get permission. He can't talk about the cricket administration or cricket." Mr Sangakkara is enjoying a respite because his national side is playing a series of games against England. He may face demands for an accounting when he returns. But he has a strong following that has just become even more zealous. The government might do better to concede this one.

Protest in Hong Kong

Monsoon of their discontent

An annual ritual turns into an expression of grievances



ON JULY 1st 2003 half a million people took to the streets of Hong Kong, forced the government to give up on a reviled law and ended the career of the territory's chief executive, Tung Chee-hwa. This is not a Tung Chee-hwa moment, but the kettle is boiling again. On July 1st throngs of angry Hong Kong people rallied between Victoria Park and the government buildings in Central-more than 200,000, according to organisers-shouting, singing, whistling and waving banners demanding democratic rights, great and small. It was the largest popular demonstration on Chinese territory in several years. The people of Hong Kong, so often quiescent, are angry again: at their local government and at meddling by the national authorities in faraway Beijing.

On the next business day, July 4th, the government blinked, postponing a controversial revision to Hong Kong's electoral law, which would have banned by-elections for vacated seats in the Legislative Council (Legco). The government had wanted to do this to prevent its opponents from repeating a stunt from last year, when they engineered by-elections to improvise a kind of straw poll on democracy itself.

Never mind that those by-elections drew only 17% of registered voters to the polls. The government is hell-bent on keeping voters away from anything that looks like a referendum. It thinks its very legitimacy is at stake.

Before the July 1st protest, it had argued that the proposed change was urgently needed before Legco's next session could begin. Now there will be a "public consultation", meaning a two-month pause in which the government must hope the protesters lose interest or go on holiday.

The delay may cool passions, but not for long. The underlying issue of suffrage in Hong Kong is becoming more divisive as the tenure of Donald Tsang Yam-kuen, the current chief executive, draws to a close. This July marks the start of Mr

Tsang's last year in office. In 2012 a carefully selected committee of 1,200 members-0.017% of the population-will choose his replacement.

To most Hong Kongers it is a rigged contest. Of the desultory crew of candidates being mooted, the three most likely share a salient characteristic: they are dependably "pro-Beijing". One of them, Rita Fan Hsu Lai-tai, a former president of Legco with a schoolmarmish manner, enjoys a measure of popularity. Another, Leung Chun-ying, is a force in the property world. He is rumoured to have some ideas up his sleeve, which would be a welcome change. But in opinion polls he draws lower numbers than any other candidate under consideration-perhaps because of his close ties to China's Communists. The emerging favourite, with only marginally better ratings, is Henry Tang Ying-yen, the current chief secretary, whose most memorable recent public pronouncement has been his defence of the despised property tycoons who get blamed for the territory's extortionate housing prices.

July 1st has been a day of protest since 1998, when it marked the first anniversary of Hong Kong's handover from Britain to China. But it was only after the huge anti-Tung protest of 2003 that the full power of the annual march was realised. The day is always a long, hot slog. Some years the marchers have been few, and their tempers mild. But other years, the protest ignites. The 2003 explosion owed its intensity to the fearsome combination of SARS, a serious form of pneumonia that appeared that year, a housing bust, knock-on effects in the local economy and a sense that Mr Tung was too incompetent to cope with it all. After Mr Tsang succeeded him in 2005, confidence in the government was partially restored.

This summer housing prices are near their record highs, making the unpropertied classes miserable in a new way. Recent polls by the University of Hong Kong find Mr Tsang's approval ratings have fallen to their lowest level since he took office. Only 20% of citizens said they were satisfied with his government, down from a high of 57% when he took the job. As Mr Tsang's stock has fallen, so has Hong Kong's view of China. Each of the past 14 years the same polling unit has used the handover anniversary to ask Hong Kongers whether or not they feel proud to have become citizens of China. The figures fluctuated only slightly between 2007 to 2010, with each side's numbers hovering between 48% and 50%. But this year saw a seven-point drop: only 41% felt proud to be part of China.

At the moment, most resentment is local, focused on the chief executive, a few of his officers, and the near future. But if the 1,200-member election committee cannot find a more popular leader, next year's July 1st rally might dwarf this one.

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Taiwan

Diplomatic slush

A former president indicted



The man who changed Taiwan

AT THE end of June a bombshell burst over Taiwan's former leader, Lee Teng-hui. The island's first democratically elected president, who ruled in between 1988 and 2000, was indicted for embezzlement and money-laundering. The country's top prosecutor's office charges Mr Lee, who is 88, with siphoning $7.8m from secret diplomatic funds over a decade ago and laundering them to build a research institute where he now presides as honorary chairman. Mr Lee, who has now become the second Taiwanese president to be charged with corruption, may face at least ten years in prison. He insists he is innocent.

Mr Lee shaped Taiwan's modern history as few others have. When he was a leader of the Kuomintang (KMT), which fled to Taiwan after losing China's civil war in 1949, he instituted key democratic reforms following a nearly 40-year dictatorship under Chiang Kai-shek and his son, Chiang Ching-kuo. Though Mr Lee was first appointed president in an authoritarian Taiwan, he called for a wholly democratic presidential election in 1996, which he won. It was a way not only of liberalising the island's politics, but of distancing Taiwan from the Communist mainland. So furious was China at Mr Lee's behaviour in those days that it lobbed missiles into waters near Taiwan. The American president, then Bill Clinton, staged the biggest show of American military muscle in the region in decades, sending two aircraft-carrier battle groups to the Taiwan Strait. Despite Chinese bluster, or perhaps helped by it, Mr Lee won handsomely.

Reviled by Beijing, Mr Lee helped foster a sense of Taiwanese identity. Many in the KMT long suspected him of favouring independence. They were right. In 2000 he was expelled by the party and founded the pro-independence Taiwan Solidarity Union. Mr Lee is now very critical of the China-friendly policies espoused by today's president, the KMT's Ma Ying-jeou.

Pro-independence types now accuse Taiwan's judiciary of political bias. Many, including the opposition Democratic Progressive Party's presidential candidate, Tsai Ing-wen, say the timing of the indictment is suspicious. Ms Tsai was about to attend a fund-raising event with Mr Lee. Meanwhile, Mr Ma has launched his re-election bid: presidential elections take place early next year.

Whatever the truth, the indictment highlights the seamier side of Taiwan's foreign relations. The ability to have normal diplomatic activities with other countries has been wrecked by Chinese pressure on them to shun Taiwan. That is why Taiwanese leaders have in the past resorted to secret slush funds to bribe nations into offering diplomatic recognition.

These funds are hardly transparent. Prosecutors say that in 1994 Mr Lee secretly wanted to donate $10.5m to an unidentified foreign political party-assumed to be South Africa's African National Congress. The money was lent by his national security bureau to the foreign ministry. But when the money was reimbursed (South Africa switched its

allegiance to China anyway), less than $3m ended back in the bureau's hands. Prosecutors allege that Mr Lee and a top aide skimmed off the rest.

Mr Lee's successor as president, Chen Shui-bian, who is already serving a long sentence after being convicted of corruption, was recently acquitted by the Supreme Court on charges of using diplomatic slush funds for his son's schooling. To his credit, Mr Ma wants to end Taiwan's dollar diplomacy and its temptations. A recent diplomatic truce with China, in which Beijing will not poach Taiwan's 23 allies and Taiwan will not seek new ones, should help. So far, the truce appears to be working. An American diplomatic cable published by WikiLeaks reported that Panama, long a Taiwanese ally, tried to switch diplomatic ties to China. The mainland rejected its overtures.

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Indonesian schools

More cheating, or else!

Scandals in the classroom



IT IS not exactly unusual for children to cheat at school. But Indonesians have learned recently that their teachers add a new twist to a familiar tale: ordering their own pupils to cheat, even if they do not want to. Not surprisingly, the revelation has led to an anxious debate about whether anyone can trust the grades of millions of young men and women who come onto the labour market each year in South-East Asia's biggest economy.

The scandal came to light at the beginning of June when the mother of a 13-year-old boy in Surabaya, in eastern Java, told the local media that her son had been forced by his teachers to share his answers to a national exam with his classmates. The mother, Siami, first complained to the school but was ignored. So she took her story to a local radio station.

Teachers telling pupils to cheat was bad enough, but the reaction to Siami's whistle-blowing was worse. Instead of being hailed for her honesty, she found her house surrounded by a mob of neighbours and fellow-parents from the Gadel 2 elementary school, accusing her of "selfishness" and calling her a "disgrace to the school". She and her family were forced to go and stay with relatives.

Following a probe by the local education authorities the headmaster of the school and two teachers were sacked. The national education ministry does not deny that the teachers ordered the boy, Alifah Ahmad Maulana, to cheat, but they say his actions made no real difference to the school's results. Despite this rather unconvincing attempt to reassure worried parents, the case merely opened the floodgates.

The past few weeks have seen more parents, pupils and others coming forward with similar stories, contradicting the government's claim that Alifah's case was a one-off. In the capital, Jakarta, a team has been set up to investigate allegations of systematic cheating at another state elementary school, SDN 06 Pesanggrahan, after complaints by another angry mother. At a special press conference at the Constitutional Court building on June 16th several people, including teachers, joined Siami in recounting their own tales of mass-cheating, and the bullying and intimidation of pupils and parents who want to come clean.

Teachers defend themselves by saying that they are under enormous pressure to pass everyone on the national tests for the good of the school-and to get more state money. It is too early to say whether these revelations will prompt an overhaul of the way that Indonesia examines its children. Schools in Jakarta have been merrily reporting pass rates of 100% for the May exams, but fewer people will now believe them. Alifah, meanwhile, skipped his school's graduation ceremony, but still hopes to go onto secondary school. His family has returned home-under police guard.

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Sudan's separation

Their day in the sun

South Sudanese are gaining independence on July 9th but have yet to build a fully functioning state



THE South Sudanese minister of information, Barnaba Marial, wells up at the thought of independence for his nation. It is bigger than his wedding day, he says; the biggest day of his life. For Mr Marial, and for most of his countrymen, the journey of two wars, 2m dead, starting with an uprising in the town of Torit in 1955, is a biblical march of a chosen people out of the steppe, swamps and hills of the lower reaches of the Nile.

The part of Moses was for a long time played by John Garang, the founder of the Sudanese People's Liberation Army and its political wing, the Sudanese People's Liberation Movement (SPLA/SPLM). Garang died in a helicopter crash in 2005 after securing a peace deal with the rulers in Sudan's north. His successor, Salva Kiir, like Garang from the majority Dinka people, is a lesser prophet.

Free at last, free at last. Even out in the bush the celebratory mood is infectious and moving. Almost everyone, from generals to cattle herders has been learning the new national anthem. The first verse goes, "Land of great abundance, uphold us united in peace and liberty".

No one doubts the abundance. South Sudan has fertile and well-watered lands, with an estimated 8m to 14m people (nobody really knows) compared with 84m in neighbouring Ethiopia. Villagers in South Sudan need not buy farmland. They simply walk into the scrub and cultivate it. The price of a smallholding of several hectares is only the minimal sum needed to have it marked out and registered.

South Sudan has the potential to be among the largest food producers in Africa. The country also has hardwood timber. It has oil, gold, chromium, iron ore and a host of other minerals. Some reckon oil revenues will fall off before 2020. Others are more hopeful. The government wants to divide up unused concessions owned by Total, a French company, and sell them to other enterprises.

But the combination of abundance and weak government almost never has a happy outcome in Africa. The new government can draw on very few trained officials. Ministries lack computers. Tax collectors are illiterate.

The new country could break down in civil conflict along the unsettled northern border or within itself. A recent agreement between north and south to put 4,200 Ethiopian peacekeepers in the disputed region of Abyei may hold. Neither side wants a return to war. Even so, the UN says 2,000 people have been killed and 300,000 displaced in fighting so far this year. The north is mostly to blame, particularly in the Kordofan region. But there have also been cases of South Sudan hammering militias that dared to defy it. That reflects squabbling over local resources, lack of communications in a country with few roads and indiscipline in ragtag bits of the army.

There is also the dogmatism of the SPLM. As with most African liberation movements, history has only one telling. The guerrillas are intolerant of criticism and angry at journalists. Yet a state built solely on the SPLM's narrative is bound to disappoint. The vice-president of the new country, Riek Machar, an ethnic Nuer, has already been sidelined. He is distrusted by some of the Dinka higher-ups.

If South Sudan is to hold together and prosper, it has to overcome many hurdles. The first is transport. The republic is a quagmire for several months a year. Rains swamp what few roads there are. Some progress has been made in building gravel tracks. It is possible to drive between some of the federal states even during the rainy season. But transport remains expensive and settlements themselves are often sunk in mud. New ideas and technologies are needed (see article).

A second challenge is "monetising" the country's livestock and moving the Dinka and Nuer cultures on from cow worship. The government says the country has 12m cattle and 24m goats and sheep. Yet there is no meat-export industry and little interest among herders in selling their animals.

A further task is to push development and investment beyond Juba, the pleasant town on the Nile chosen as the capital that is dominated by Dinkas. The governor of the state of Eastern Equatoria, Louis Lobo Lojore, says his people want more federalism. That means, for example, giving states the right to strike deals with foreign investors. Ministers in Juba rudely dismiss such ambitions. Investment has to come through the capital and the terms must be decided by officials there.

A question keeps cropping up: is South Sudan a nation of equals or a Dinka state? Unless there is a balance between Juba and state capitals and between Dinkas and other groups, South Sudan may prove too big and diverse-too Yugoslav, in other words-to hold together.

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Doing business in South Sudan

Ready, steady, invest

Welcome to one of the world's whackiest economies

THE herbalist stall of Dr Zachari in Juba, the capital of South Sudan, offers "cures" for AIDS, madness, lost love and "manhood misfires", but most popular with customers coming to his tin-shack in the sprawling Konyo-Konyo market is "business advice". South Sudan will be independent from July 9th and investors, entrepreneurs and jobseekers are pouring into the capital, lured by the prospect of equipping a new state.

Bars on the steamy banks of the White Nile are filled with Kenyan traders, Ethiopian waiters, Chinese engineers, American security contractors, Eritrean restaurateurs and Ugandan motorbike drivers. Expatriate South Sudanese are also coming home in droves after decades of civil war. The most prominent are the "Cuban Jubans", a group long ago sent to Havana for education; they run the loudest bar in town. Outside its doors, Hummers and other pricey cars bounce along yet-to-be-paved roads.

The embryonic nation is severely handicapped by a lack of infrastructure. Tarmac is almost non-existent. The information minister, Barnaba Marial, says, "We never had roads. We are starting from below zero." Sending a shipping container from a port in neighbouring Kenya to landlocked Juba costs almost $10,000. "They want to tax you at every roadblock," says Charles Opolot, a Ugandan fruit trader.

Accommodation is also expensive and limited; many visitors sleep in furnished shipping containers at a cost of $150 a night. As 85% of the population is illiterate, businesses struggle to find capable local employees.

A recent report by the International Finance Corporation ranks Juba 159th out of 183 places worldwide for ease of doing business. For a city ruined by war, and one estimated to have tripled in size since a 2005 peace deal, that is not a terrible start. It has had some success in attracting investors. SABMiller built a brewery. Oil companies are active.

Relative to local incomes, Juba is the second most expensive city in the world in which to start a business, after Congo's Kinshasa. Businessmen say they all need good "friends" in the rebel-army-turned-ruling-party, the SPLM, which controls access to most economic opportunities. Residents mutter darkly about rulers putting most profits in their own pockets.

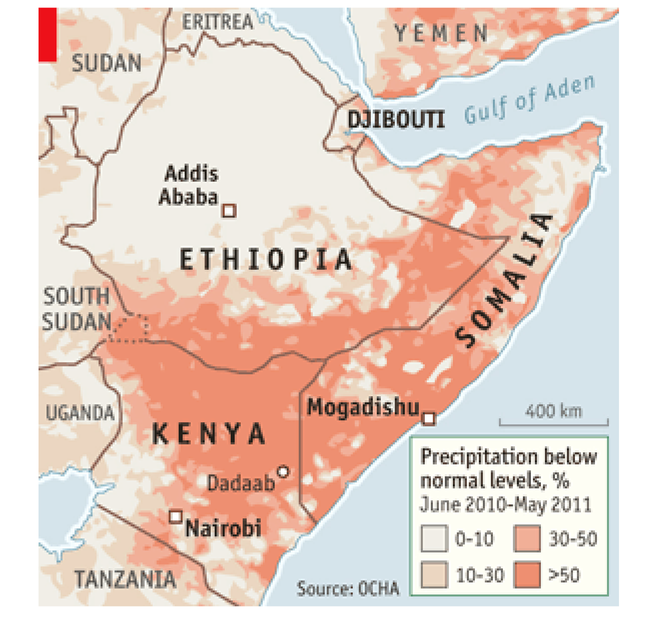
State agencies are "riddled with inefficiencies", says Melody Atil, who runs Peace Dividend, a microfinance organisation that funnels capital from the Sudanese diaspora to local borrowers. More orthodox creditors remain wary: splitting a country creates uncertainties. "People expect to be succeeding, but are still struggling to make money," says Dr Zachari, the healer. "I'm there to help them if they have been cursed."

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Hunger in the Horn of Africa

Once more unto the abyss

A terrible drought has brought the shadow of famine back to Africa



BLOATED bellies with stick arms and legs; huge eyes staring out of skeletal heads; gaunt mothers trying to suckle babies on withered breasts. The world thought it might never see such scenes again. Famine in Africa, absent for many years, appeared to have gone the way of diseases for which we now have cures or vaccines.

Yet, after the worst drought in 60 years, more than 10m people in the Horn of Africa need emergency food aid. Livestock have been annihilated. Hundreds of thousands of people are streaming into refugee camps in search of help. Malnutrition rates in some areas are five times more severe than the threshold aid agencies use to define a crisis. Many children are already dying of starvation.

The areas most affected by the drought are northern Kenya, south-eastern Ethiopia, southern Somalia and Djibouti. The region's last two rainy seasons were meagre. Rivers and boreholes are running dry, crops failing, traditional grazing land turning to dust. Up to 60% of cattle and goat herds, the main assets for many of the worst-affected people, have perished, their corpses and skeletons littering the plains.

In areas lucky enough to have a little green, armed herders are violently competing for dwindling resources. In Kenya alone more than 100 herders have been killed so far this year.

"In some areas we are close to famine, a situation we have not seen for 25 years," says Gabriella Waaijman, east Africa head of the UN Office for the Co-ordination of Humanitarian Affairs (OCHA). "We are currently in the emergency phase, which precedes famine, and it is bound to get worse." American aid officials talk of "the most severe food-security emergency in the world today". Kenya has declared the drought a national disaster. Oxfam, a British-based international aid agency, launched its biggest-ever emergency appeal to deal with the crisis.

Yet no one can say they were not warned. OCHA has been sending out famine alerts for the region since last year, begging for funds. But Western donors, hamstrung by the effects of the financial crisis, have been slow (or reluctant) to respond. Of the $1.6 billion required in emergency humanitarian aid, only half has been provided, with no new funding in the pipeline, Ms Waaijman says. This has forced organisations like the UN's World Food Programme to make cuts at a time when they should have been expanding.

Soaring world food prices have made matters worse. In Somalia the cost of sorghum, the local staple, has risen 240% since last October. In Kenya the price of maize has tripled. Food hoarding is reportedly aggravating shortages-even where rain has been plentiful.

Parts of Kenya have recently had a bumper harvest, leaving NGOs to wonder why the government's strategic grain reserves are so low. An estimated 3.5m Kenyans are in urgent need of food. So are 350,000 refugees in the disastrously overcrowded Dadaab camp near the border with Somalia.

Who is to blame? An oscillation in the climate in the form of La NiÃ±a-a cooling of the surface temperature across the equatorial eastern-central Pacific, causing big changes in airflow and weather patterns-is likely to have contributed to the droughts.

But humans too play a part. "This is a preventable disaster and solutions are possible," says Jane Cocking, Oxfam's humanitarian director. It is no coincidence that the worst-affected areas are also the poorest in the region. Long-term investment could have made villages and towns more resilient.

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Cote d'Ivoire's recovery

Back in business

A new leader is making slow progress

TWO months after Alassane Ouattara was at last sworn in as president, following a bitterly disputed election last November, the government is restoring order and Abidjan is slowly coming back to life. The corpses and rubble that littered the streets during five months of civil strife have gone. The police, who habitually took bribes off motorists at road blocks in the commercial capital, have been replaced by workers filling in potholes and repairing streetlamps. "It's a good start," says one worker. "We are turning the lights on across the country."

But the peace is fragile. Mr Ouattara, a former deputy director of the IMF, is not yet entrenched. He managed to displace his predecessor, Laurent Gbagbo, whom he beat in the election by an official margin (endorsed by the UN, among others) of 54% to 46%, only because rebels loyal to him eventually swept down from the countryside; with help from a UN force spearheaded by the French, they then forced Mr Gbagbo out.

Cote d'Ivoire is still divided along a north-south fault line. Mr Ouattara has decreed that his ragtag bunch of armed groups, previously known as the New Forces, should now be known as the Republican Forces, or FRCI. For the time being, it seems, they are regarded as the new regular army. It is not clear whether Mr Ouattara plans to integrate the two rival forces or to base a national army on the Republican Forces or whether to start from scratch. This makes some queasy.

Many of the rebel commanders now backing Mr Ouattara are warlords who grew rich from smuggling and racketeering. His FRCI has been widely accused of harassing civilians, meting out summary justice in the streets, and punishing members of the southern tribes that tended to back Mr Gbagbo. The FRCI has been accused of massacring at least 800 people from tribes allied to Mr Gbagbo in the western town of Douekoue.

Some of the officers in Mr Ouattara's new army have menacing *noms de guerre*, such as bin Laden. The ragged rank and file have replaced the previous state-security apparatus. In an effort to look efficient, the government has publicised a new military tunic that can be worn only by officially registered soldiers.

The western part of the country, rich in minerals and farmland, is still scarcely governed. "They have the guns, so what can we do?" says a Gbagbo voter, gesturing at dozens of FRCI soldiers outside her restaurant in Abidjan. "A president can't talk about reconciliation when he makes a warlord his prime minister."

Mr Ouattara has promised there will be no impunity for any miscreant, his own forces included. So far no one has been arrested or detained. But several leading figures in Mr Gbagbo's regime have been jailed without charge. Many Ivorians in districts thought to back Mr Ouattara were apparently kidnapped, tortured and shot.

The former president and his wife are still under house arrest; a law passed in 1963 has been invoked to hold them indefinitely. Many doubt whether Mr Gbagbo would get a fair trial in his own country. Some say he should be sent to the International Criminal Court in The Hague.

Many Ivorians also feel edgy about the role of France, the former colonial power, in helping Mr Ouattara to take over. His enemies have sprayed mocking graffiti on the city's bullet-scarred walls, making FRCI, the new army's initials, stand for "France-Cote d'Ivoire". "The important thing will be for Ouattara to show this isn't just France coming back as before," says a commentator. "We're in a new era."

One thing is not new: the economy is a shambles. The new government says Mr Gbabgbo and his friends spent $1.7 billion to pay for arms used against Mr Ouattara, while making off with what was left in the central bank's coffers. The IMF reckons that this year GDP will have shrunk by 7.5%. Nearly half the population is under 35 and jobless. A general election, to be held by the end of the year at the earliest, will be a test of normalcy.

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Syrian rebellion

Sledge Hama

Syria's fourth-largest city is assuming a familiar role as protest capital



His father's son

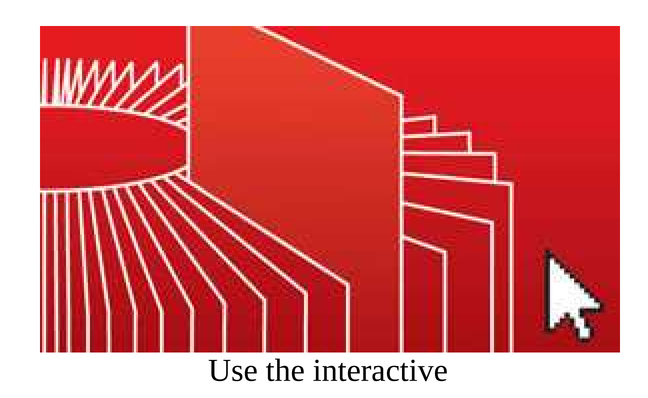
COULD the central Syrian city of Hama come to define Bashar Assad's rule in the same way it did his father's? The conservative Sunni city of 800,000 was subjected to a fearsome crackdown in 1982 by then-president Hafez Assad, killing some 20,000 people. Now its residents are once again in the crosshairs. Over 70 were shot dead during protests on June 3rd. Fearing escalation beyond its control, the regime temporarily pulled out most forces. Free to protest, tens of

thousands took to the streets. Some reports suggest 300,000 people, including women and children, turned out on Friday July 1st, the biggest protest to date.

Then the regime suddenly changed tack. On July 3rd, having sacked the provincial governor, who was widely liked in Hama, armed troops returned to the city and resumed their campaign of violent intimidation, killing at least 24 demonstrators over the next two days.

The regime is following a script familiar from other recent protest sites around the country. In cities such as Deraa and Homs, tactical withdrawals were followed by a heightened use of force. Where intimidation failed to work, as it often has, tanks rumbled on to the streets.

Yet the situation is very different from 1982. Then the Muslim Brotherhood, an Islamist group based at the time in Hama and Syria's north-west, carried out a violent campaign to unseat or assassinate Hafez. The regime struck back by sealing off the city and shelling it without restraint. Churches and mosques were crushed. Few residents forgot or forgave the massacre. When Hafez died in 2000 the only black flags anywhere in the city flew on government buildings.



Use the interactive

Today's protesters have different aims and use different means to fight the regime. Far from being violent Islamists, many wish for a secular democracy and have not picked up weapons-at least not so far. "We were left to die the first time. We won't this time," says one defiant city resident.

Activists make sure news of atrocities travels. In 1982 it took weeks for word of the month-long siege to leak out. Now videos of protesters circulate within hours. The regime knows it must be more careful today. Bashar is fighting a very different battle from his father's, even if the ground is familiar. But like him, he could forever be tainted by blood shed in Hama. The city has unmatched reserves of defiance that make it the most likely site of an eventual bid by protesters to win control of territory and hold on to it.

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Morocco's referendum

A very small step

The king has offered some reforms, but the opposition is not satisfied



No dissident in sight

WITH the easterly wind, the *shergui*, enveloping them in hot desert air, most of the residents of Benslimane, a sleepy town in north-west Morocco, waited till dusk to vote in a constitutional referendum on July 1st, pressed by officials who wanted a strong turnout for what has been as much a test of King Mohammed VI's popularity as a poll about reform.

Businessmen backing the yes vote held celebratory street parties. Imams at Morocco's mosques were instructed to preach in favour of what was heralded as the king's constitution. But even in conservative Benslimane, some 800 dissidents campaigned for a boycott. A headmaster at a local school serving as a polling station was overheard muttering that the whole exercise was a masquerade.

The result-98.5% in favour-drew guffaws of disbelief from members of the February 20th movement. The coalition of leftists, independent liberals and Islamists from the banned Justice and Spirituality movement surprised many when its protests for social justice and democracy drew thousands of sympathisers across the kingdom earlier this year. It called for a boycott of the referendum.

The new constitution includes some important reforms. It establishes human rights as core principles, recognises Berber, spoken by many Moroccans alongside Arabic, as an official language and calls for gender equality. It gives new powers to the prime minister and parliament and inaugurates a much-needed overhaul of the judiciary. It no longer deems the king sacred, though he is still "Commander of the Faithful".

Critics complain that many of the new constitution's articles refer to "organic laws" that have not yet been written, making the extent of some changes uncertain. Others depend on the creation of special commissions, mostly headed by the king. Political parties, a majority of whom backed the "yes" vote, only saw a draft of the constitution at the last minute. No mention is made of King Mohammed's promise, which came in a speech in March, of moving towards a parliamentary monarchy. The king remains-directly or indirectly-in control of the executive, legislative and judicial branches of government, or as the new constitution puts it, a "supreme arbiter" of political and institutional life. In many respects, the new constitution merely codifies an existing method of governing that allows the palace to micromanage at its whim.

When the February 20th movement was launched, inspired by the Egyptian and Tunisian revolutions earlier this year (but never calling for the king's head), it drew much public sympathy. Many Moroccans felt enthusiastic about Mohammed VI, dubbed the "king of the poor" at the beginning of his reign in 1999. But less so in recent years, during which press freedoms were dramatically curtailed, incidents of torture returned and corruption increased.

Yet many Moroccans have been frightened by the attempted regime change in Libya and Syria. "We want transformation without violence," says Saad Eddine Othmani, a leader of the opposition Islamist Justice and Development Party, which supported the new constitution. "This...is a beginning."

General elections expected later this year could bring further change. But although the new constitution may have bought the king some time-helped by a doubling of food and fuel subsidies, the creation of new government jobs and the boosting of civil-service salaries-the regime is still not dealing with people's main grievances, notably failing public-health and education systems, and rampant corruption. The political elite needs to take note, cautions Omar Belafrej, the head of a left-leaning think-tank. "There is little goodwill left."

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Bahrain's crisis

Shoot first, then talk

The government consults wary protesters

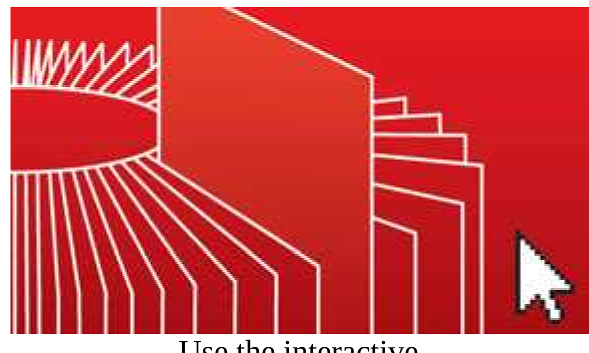
BILLBOARDS covering the Bahraini capital, Manama, shout, "Our Bahrain, our unity". If only.

After months of brinkmanship and repression by the government, talks with dissidents aimed at dealing with their demands for political change in the tiny Gulf kingdom were never going to be easy. Within hours of the opening ceremony on July 2nd, protesters chanting "dialogue is suicide" charged a police checkpoint on the city's outskirts. They were driven back by rubber bullets and tear gas, but sporadic protests have continued and tensions remain high.

This week's march was organised by the February 14th movement, a group of online dissidents, mostly from the Shia Islamic sect, who were behind protests against the Sunni royal family in the spring. Those early protests sparked a crackdown and exposed a deep sectarian divide. At least 32 people, mostly Shias, were killed. Hundreds were arrested and dozens convicted in show trials before a military court. Many say they were tortured in detention.

Anxious to restore calm, King Hamad bin Isa al-Khalifa recently suspended the court and appointed an independent human-rights commission to investigate alleged abuses. He also invited dissidents to what he calls a "national dialogue". But many have dismissed the talks as a sham to appease America, which maintains a naval base in Bahrain. Talk of reconciliation is meaningless while hundreds remain in jail, activists say.

Yet, fearful of seeming to undermine efforts to find a political solution, moderate opposition groups, including Wefaq, Bahrain's largest Shia party, reluctantly agreed to participate. Many Shias, however, are angry that the party has lent legitimacy to the king's initiative. The talks' format has unsettled them further. Opposition groups could nominate just 35 of the 300 participants. They say they will pull out if the talks ignore their demands for the release of political prisoners and democratic reform.



Use the interactive

The scene is set for more sectarian tensions. Posters have appeared in Sunni strongholds warning the king not to give in to Shia demands. Pro-government delegates at the talks denounced Wefaq as agents of Iran plotting to bring Bahrain under foreign control.

But even as the dialogue flounders there are at least some grounds for optimism. The king's human-rights committee looks sound. Shia groups were initially sceptical but its head, Cherif Bassiouni, a UN war-crimes expert, seems determined to root out those responsible for abuses.

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France and Dominique Strauss-Kahn

He can't hide, but can he run?

More extraordinary twists in the DSK affair grip France-and create fresh agonies in the Socialist Party



LESS than two months ago Dominique Strauss-Kahn, favourite in the polls for next year's French presidential election, was locked up in a New York jail and on suicide watch, after his arrest on charges of attempted rape and sexual assault. Now, just as the French had faced up to his disqualification from public life, the case against the former IMF boss seems close to collapse. A Manhattan judge's decision on July 1st to free DSK, as he is known, from house arrest, amid doubts about the credibility of his accuser, has again knocked France sideways.

The latest episode in this torrid saga involving power, money, sex, politics and transatlantic incomprehension came from revelations about the plaintiff, a hotel maid. The district attorney's office in New York catalogued a devastating string of lies: on her application for asylum, on her tax return, to the housing authorities, to a grand jury and, repeatedly, to the prosecutors, including over what happened in the hotel after the alleged assault on May 14th. A report in the *New York Times* claims she made a phone call to a jailed man a day later, in which she discussed potential financial gain; he and others had deposited some $100,000 into her bank account over the past two years.

Such revelations leave the accuser's credibility in tatters, whether or not her account of what took place in the hotel room is true. The maid's lawyer, Kenneth Thompson, insists that "she has never once changed a single thing" in her story of the sexual assault. And DNA evidence suggests that a sexual encounter did indeed take place. Yet the case still looks likely to fall apart. It could even be dismissed ahead of Mr Strauss-Kahn's next scheduled court appearance on July 18th.

For the French, stunned yet again by the DSK affair, the most pressing question is whether he might be able to revive his political career, and even his presidential hopes. Recent history suggests that nobody is disqualified forever from French politics-Alain Juppe, now foreign minister, was once convicted of political corruption. On paper, nominations for the Socialist presidential primary are due to close on July 13th. But various party leaders, including Martine Aubry, the Socialists' boss and herself a candidate, have made clear that this timetable could be stretched.

The French are divided over a possible comeback. At best, 49% want him to have a political future, with 45% against. At worst, 54% say they do not want him to run in the Socialist primary. The French were indignant over the "perp walk", which they regard as a humiliating breach of the presumption of innocence (see article). There is sympathy for a man some thought destined for the presidency being brought down by an aggressive American judicial system. DSK's friends on the left sounded triumphant at the collapsing case. Bernard-Henri Levy, a celebrity intellectual, this week called his treatment "obscene" and "pornographic". Even the French media, which had pronounced his political death, now talk of a possible resurrection.

Moreover, conspiracy theories are flying around yet again. One Socialist deputy says that "something does not quite add up" in the link between Accor, the French group that owns the Sofitel hotel in New York, where the alleged assault took place and which said the maid was "completely satisfactory", and security contacts in the Elysee Palace. Claude Gueant, the interior minister, described as "odious" the idea that such contacts constituted anything other than communication of the facts. Accor also denies claims of interference. But from the start, 57% of the French public has seen DSK's arrest as part of a plot, so denials are unlikely to quell rumours. In April, in a discussion about dirty tricks with *Liberation*, a leftist newspaper, Mr Strauss-Kahn even speculated about a scenario in which "a woman [that he had supposedly raped] in a car park would be promised euro500,000 to invent such a story."

Sympathy for DSK has, however, to be set against distaste at the wider revelations about his way of life. Polls suggest that women and older voters have the biggest reservations. Many French voters who find ostentatious wealth obnoxious have been taken aback to see DSK flaunt his fabulous riches. They also know that the collapse of the case does not prove there was no sexual encounter. Mr Strauss-Kahn's lawyers have stated only that there was "no element of forcible compulsion". This week the maid sued the *New York Post* for reporting that she was a prostitute. Whatever the nature of the encounter, one French left-wing editor, Laurent Joffrin, puts it well: "you do not take such risks when one seeks the highest office".

More troubling still, Mr Strauss-Kahn faces charges for attempted rape in France. This week Tristane Banon, a writer, filed a lawsuit against him for an alleged assault in 2003. She did not press charges at the time, partly on the advice of her mother, a Socialist politician. Under French law, she can sue for attempted rape up to ten years after the event (though only three years after a sexual assault). Mr Strauss-Kahn's arrest has emboldened many women besides Ms Banon to break France's code of silence over sexual assault. Many talk of a "before and after DSK". Calls to a rape hotline jumped nearly 30% following his arrest. Georges Tron, a minister, lost his job in late May after two former employees accused him of sexual assault following foot-massage sessions, charges that he denies.

The Socialist Party is in a fix. Its leaders are publicly leaving the door open to DSK. But they had turned the page and inherited most of his poll lead over Mr Sarkozy. Ms Aubry has said that she will "go all the way". Francois Hollande, the front-runner, is also unlikely to drop out. "I don't think DSK can return, even if he wants to, which itself isn't clear," says a Socialist insider. And if he does not run, it is not obvious that he would be an asset to the campaign of any other Socialist candidate either. Mr Strauss-Kahn may be close to escaping the clutches of the American justice system, but the attempted rape case going before French investigators has hardly started.

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America's judicial system

That guilty look

Is it time to end the perp walk?



How it was in May

IT WAS one thing for the French public to hear that Dominique Strauss-Kahn had been arrested. It was quite another to see him grim-faced, handcuffed and in the custody of New York detectives. To Americans, this was just the "perp walk".

This practice gives the newspapers and television images for stories and lets police and prosecutors show off the big game they bagged. J. Edgar Hoover, first head of the FBI, paraded arrested mobsters before the cameras. Lee Harvey Oswald, Kennedy's assassin, was killed during a perp walk. It was a favourite tactic of Rudy Giuliani when he was a federal prosecutor.

It also has critics. Nat Hentoff, a journalist and civil libertarian, says that "under such circumstances even Mother Teresa would look extremely suspicious, especially if her hands were cuffed behind her back." Jack King, of the National Association of Criminal Defence Lawyers, says perp walks "run counter...to the presumption of innocence." Even Michael Bloomberg, New York's mayor, now disapproves. But this amounts to polite throat-clearing compared with the outrage on the other side of the pond.

Elisabeth Guigou, a former French justice minister, called the images of DSK "incredibly brutal, violent and cruel". Jean-Pierre Chevenement, a senator, condemned an "appalling global lynching". Eva Joly, a Green presidential hopeful, said that America had "a much more violent judicial system" than France.

If she means adversarial, she is correct. American trials pit two lawyers and two narratives against each other; a jury decides which is more plausible. The French have juries only in the most serious cases (including rape). Defendants lack fifth-amendment protections. Adversarialism may mean Mr Strauss-Kahn was roughed up in a way he would not have been in France; but it also meant that, when his accuser was found to be unreliable, the case began to collapse.

Hence a final argument against perp walks: they can be risky for prosecutors. Contrary to many French objections, Cyrus Vance, Manhattan's district attorney, has behaved well. He dealt fast with a serious allegation against a rich suspect who was about to leave the country for one with which America has only a limited extradition treaty. He also moved quickly when the case against that suspect began crumbling. As for pictures of Mr Strauss-Kahn in handcuffs, the French may see a famous politician treated like a common criminal. Mr Vance-and the New York voters who elect him-may see another high-profile suspect whom he failed to convict.

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Back to partisanship

A return to divisive politics after a modestly successful EU presidency

JUST as the scion of a vanished dynasty departs, parts of its old empire rise anew. Otto von Habsburg, once heir to the throne of the Austro-Hungarian empire, died this week at the age of 98, days after Hungary handed the rotating European Union presidency to its neighbour, Poland (see Charlemagne). As a member of the European Parliament, he promoted the EU aspirations of central Europe. He would have rejoiced that another former family domain, Croatia, is now ready to join.

Indeed, Hungary's Fidesz government is proud that on June 30th, its last day in charge, the EU completed negotiations with Croatia, which is expected to accede in July 2013. Hungarian officials also point with satisfaction to an almost-done deal on economic governance and to EU-wide Roma and Danube strategies. The hope is that the Poles will sustain this momentum to speed the accession of Serbia and other Balkan countries, says Zoltan Kovacs, the state secretary for communications.

Others are less laudatory. Hungary's presidency was a modest success, says one diplomat. The Lisbon treaty created a permanent president of the European Council and a foreign-policy supremo, leaving less scope for agenda-setting. "There was a mixed level of expertise. They learnt on the job. Hungary met its headline priorities, got a lot of what it wanted and there were no hideous disasters."

Yet the rosy glow over the Danube may prove short-lived. Hungary's presidency was marred by criticism of Fidesz's new media law and constitution. Complaints about excessive centralisation of power are returning. Visiting Budapest last month, Hillary Clinton, America's secretary of state, called for "a real commitment to the independence of the judiciary, a free press and government transparency." Freedom House, an American-based lobby group, talks of "the most significant backslide in Hungary's democratic development since 1989". The Venice Commission, which advises the Council of Europe on constitutional matters, worries about "cardinal laws" in the constitution that require a two-thirds parliamentary majority to be changed. Some deal with economic matters such as pensions and public debt.

The European Parliament has asked the European Commission to review the constitution, saying it fails to protect basic rights. The Hungarian government rejects this as political mischief-making and says the watchdogs do not listen. Tibor Navracsics, the justice minister, invited the Venice Commission himself, says Mr Kovacs. "There were cardinal laws under the old constitution and there will be two fewer under the new one," he insists.

Yet the doubts will not go away. When Wen Jiabao, China's premier, visited Budapest recently all Tibetans in Hungary were called to the immigration authorities to have their papers checked. Anyone suspected of violent or organised crime, or abuse of power, can under a new law be held for five days without charge, and prosecutors can choose which court should hear their cases. Even judges say the new legislation may be unconstitutional; civil-liberties groups say it may breach Hungary's international obligations.

By coincidence (or not), three senior intelligence figures have just been arrested, causing consternation among the chattering classes. They are Sandor Laborc, a former head of the domestic security service, Lajos Galambos, his predecessor, and Gyorgy Szilvassy, a former Socialist minister in charge of the secret services. All three have now been released (Mr Galambos to house arrest); all protest their innocence. But officials refuse to provide any details of the cases or the charges.

Received wisdom has long held that the big guns of Fidesz and the Socialists would not fire on each other, for fear of retaliation. Yet if such a pact ever existed, it has now gone. Mr Szilvassy is a close ally of Ferenc Gyurcsany, the former Socialist prime minister. Hungarian politics is entering a new, more ruthless era.

Belarus's crackdown

No applause, please

A hardline president is having to cope with a collapsing economy



Don't clap, son

ORDINARY dictators like applause. These days Alyaksandr Lukashenka, the demagogic and authoritarian president of Belarus, cannot stand it. Every Wednesday a few hundred people come out on the streets of Belarusian cities and wordlessly clap their hands. They may not shout slogans, but everybody knows what it is they are silent about.

Unlike the thousands-strong protest last December brutally put down by Mr Lukashenka, the clapping protests are modest in scale. And though their organisers talk of "a revolution through social networks" their real point is to demonstrate the protesters' courage and Mr Lukashenka's paranoia. Each Wednesday plain-clothed thugs with earpieces swarm the streets of Minsk dragging people out of crowds and pushing them into security vans parked in side streets with their licence plates covered.

During celebrations of Belarus's independence day on July 3rd, the police said that any applause other than to war veterans would be considered an offence. So nobody applauded Mr Lukashenka's combative speech. But even those, including journalists, who just gathered at one of the city's squares were arrested.

Anatoly Lebedko, an opposition leader who spent several months in a KGB cell in Minsk after December's election, says Mr Lukashenka has lost the support of most of the population and also Russia's unconditional backing. His popularity rating has plunged from 53% in December to 29% last month, according to an independent opinion poll.

This is not surprising. The economy is teetering on the brink of collapse. With inflation hitting 35% and the currency having lost half its value, most people feel a lot poorer. There are restrictions on the sale of hard currency. People are queuing for weeks to change Belarusian roubles. And though fear and an inured tolerance of hardship tend to stifle protests, there are reports of strikes at some Belarusian plants.

The country's Soviet-style command economy was never efficient and could be sustained only by foreign credit and huge Russian subsidies in the form of cheap energy and the ability to buy discounted Russian oil and sell on refined products at a markup. In the past five years Russia's subsidy has fallen from the equivalent of 20% of GDP to only 7%.

But it was last year's election that made the situation critical. To bribe voters, Mr Lukashenka raised salaries and social spending. State firms went on a borrowing spree. After violently suppressing protests and taking many political prisoners, Mr Lukashenka cut Belarus off from Western support. Leonid Zlotnikov, an economist, says Belarus needs to find monthly payments of over $1 billion to service its debts. Its foreign-exchange reserves are down to a month's worth of imports. "The economy is choking," Mr Zlotnikov says. And the Kremlin, which gave Mr Lukashenka a boost just before the election and recognised its result despite the violence, is not rushing to the rescue-albeit for cynical and pragmatic reasons.

Having spent $50 billion propping up Mr Lukashenka over the past decade, the Kremlin now wants something back, such as gas pipelines, perhaps, or refineries and chemical plants. Alexei Kudrin, Russia's finance minister, has said that he would agree to a rescue credit line only if Belarus privatised assets worth $7.5 billion. Mr Lukashenka resists giving up economic control. But as Oleg Manaev, an independent sociologist, says, "Lukashenka's fate is no longer in his own hands".

The Kremlin may not want to topple Mr Lukashenka yet because it fears that, without him, Belarus could rush towards the West. He is also a useful bogeyman who makes Russia's own leaders seem more civilised and democratic. The Russian tactic, it seems, is to keep Mr Lukashenka just above the surface, occasionally dipping him in and then pulling him out to make sure he is still breathing. But if the Kremlin miscalculates and keeps Mr Lukashenka under a moment too long, it could inadvertently provoke a more serious revolt. Then the applause would become deafening.

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Italy and austerity

Berlusconi's bung

The failure of a shameless budget manoeuvre by the prime minister

NOTHING illustrates better the gulf between Italy's multi-billionaire prime minister, Silvio Berlusconi, and the people that he governs than the impact of Italy's emergency budget, introduced on June 30th. For most Italians, it meant sacrifices running to hundreds of euros. For Mr Berlusconi, it promised savings of hundreds of millions.

In total the cabinet approved deficit-cutting measures of euro40 billion ($55 billion). The finance minister, Giulio Tremonti, wanted to dispel any spectre of a Greek collapse in Italy. But he is under pressure, especially from Mr Berlusconi's coalition partners in the Northern League, to consider the political consequences. Alarmed by the ruling parties' dismal showing at local elections in May, the League's leader, Umberto Bossi, has called for a U-turn: tax cuts funded by drastic cuts focused on defence spending.

The four-year austerity budget is a compromise. Mr Tremonti got his deficit reductions. Yet all but euro6 billion of the tax rises and spending cuts will take effect after 2012, hinting that there may be an election next year, before they bite. Mr Bossi got a promise of lower income tax, accompanied by a hint that the shortfall may be made good by a gradual rise in VAT.

That would hit the poor harder than the rich. But as the details became known, there was even worse news for the less well-off, including many of Mr Berlusconi's (and even more of Mr Bossi's) voters: increased health charges and a freeze on cost-of-living increases for higher-value state pensions. More cuts must be made by local and regional authorities, which are set to lose euro10 billion in central-government transfers. The budget also includes a rise in the flat-rate stamp

duty on government bonds that have for years formed the core of every middle-class Italian saver's portfolio, which could sharply reduce their net returns.

These are tough times in southern Europe. Italy's public debt will top 120% of GDP this year. It cannot afford to run a big deficit. The government argues that everyone must bear some pain. Unsurprisingly, then, there was outrage (even privately among ministers) when it emerged that, for the prime minister himself, the budget contained not pain but an analgesic of monstrous proportions.

The biggest threat to Mr Berlusconi was never his various trials, even if some could still cause trouble. His main financial worry is a civil action brought against Fininvest, the firm at the heart of his business empire, by a company belonging to his long-standing rival, Carlo De Benedetti. The case arose after the battle over Mondadori, Italy's biggest publishing house, in the early 1990s. Three Fininvest lawyers were found to have bribed a judge for a favourable court verdict. Mr De Benedetti wants compensation. A lower court decided he should have euro750m: big bucks, even by Mr Berlusconi's standards.

A clause tucked into the 100-odd pages of the emergency budget offered him some respite by letting any defendant liable to pay compensation of more than euro20m suspend payment until completing Italy's two-stage appeal procedure. In a system notorious for delay, that could take years. Amid reports that neither Mr Tremonti nor the League was told of this clause, the prime minister withdrew it, decrying his critics'"shameless exaggeration". Even before this week, it was not easy to see how Mr Berlusconi could reverse the steady decline in his popularity in time for the next election. Now it looks harder.

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Angela Merkel

Hello to Berlin

The German chancellor discusses the euro crisis and domestic politics



Cautious, unflappable

KURT KIESINGER, a German chancellor of the 1960s, reputedly rose late, spent his first two hours reading the newspapers and then fuming about them for another hour. Angela Merkel, the present incumbent, has much fuel for irritation. Her government is unpopular. Germany's allies are frustrated. Europeans who look to her for leadership in the euro crisis complain that she has let them down. Businessmen, once among her firmest supporters, are losing faith. A recent cover of *Der Spiegel* magazine summed up its verdict on her government with a thumb turned resolutely down.

That Mrs Merkel has a thicker skin than her (mostly forgotten) predecessor was evident recently in her Bundestag office, just steps away from the upholstered parliamentary chamber. She seems unflustered by the tempests raging around her. She is funnier, livelier and more interesting in private than in public; one reason, perhaps, why she frustrates many who observe her from a distance. She has confidence in her judgment but knows that many affected by it, whether at home and abroad, do not. She doubtless hopes to be vindicated by the next federal election, due in the autumn of 2013.

Nothing causes more head-shaking than her handling of the euro. Mrs Merkel has supplied the necessary support, but only grudgingly and after much hesitation. Some wait in vain for a bold stroke to end the crisis and perhaps relaunch the stalled project of European integration. Yet Mrs Merkel faces mounting opposition at home from those who think she has been too ready to help the likes of Greece and Portugal. These critics include members of her own coalition, a three-party alliance of her Christian Democratic Union (CDU), its Bavarian sister, the Christian Social Union (CSV) and the liberal Free Democratic Party (FDP). If enough MPs defected over the euro, her government would fall.

Several other decisions have deepened the unease. Germany broke with its allies to join China and Russia in abstaining over the UN Security Council resolution authorising the use of force in Libya. After Fukushima, Mrs Merkel reversed a decision to extend the operating lives of nuclear-power plants and immediately closed seven. This reinforced her image as a political opportunist driven by polls, devoid of vision and lacking in convictions. In a recent Allensbach/*Capital* magazine survey of business and political leaders, the share of respondents describing Mrs Merkel as a "weak chancellor" had jumped from 37% to 58% between December and June.



Ordinary folk continue to respect her. She regained her place as Germany's most trusted politician in June, according to a poll in *Stern* magazine. Yet if the election were held today she might well lose. The Social Democrats and Greens, say the polls, could win the majority in the Bundestag that they need to form a government. The economy is flourishing, with the number of unemployed falling below 3m for the first time since 1992. But the government gets little credit for it.

Mrs Merkel thinks she has struck the right balance between helping wobbly euro countries and pressing the case for reform and burden-sharing by private creditors. "At first, I was the only one who said that the IMF had to be involved" in the Greek rescue, she says. Its conditions are needed to ensure that "a process of recovery can really begin." The fund also serves to shore up political support for the euro at home and to forestall any risk of the emergence of a German Eurosceptic party like those that plague some other euro members. Part of her job, she says, is "to convince people that a united Europe is the best thing for our future, and so leave no room for crass Eurosceptics."

A surer route to Greek recovery might have been to restructure its debt. But Mrs Merkel notes that she gets conflicting advice. Some economists and bankers "talk about a meltdown. Others see no problem at all," she says. "As a politician, I can't experiment when opinion is split 50/50." And as usual in such a situation, she instinctively chooses caution.

Friction between her CDU and the FDP is another cause of malaise. Some CDU ministers do not conceal their impatience with their liberal allies, who have been making what seem to be impossible demands since they re-entered government in 2009, after 11 years in opposition. Lobbying for tax cuts has been almost incessant. Law-and-order minded conservatives have little patience for the civil-liberties agenda of the FDP. The liberal dream of bolstering the private sector and slimming down the state is as remote as ever.

The frustration is mutual. "Voters want more courage, more commitment," from Mrs Merkel, says Christian Lindner, the FDP's general secretary. Her tactic of appeasing voters and balancing factions is failing. "Will she go down in the history books as a chancellor who mediates or as one who leads?" he wonders.

Last autumn, when the mood was similarly mutinous, Mrs Merkel re-embraced the centre-right principles that supposedly unite her "Christian-liberal" coalition. She may now do so again. One signal is her keenness to dampen speculation about a possible coalition with the Greens after the next election. The idea is "an illusion," she says, in part because the Greens much prefer to govern with the SPD and even the Left Party. (This reference to the ex-communists is a CDU scare tactic; the likeliest SPD candidates for chancellor are adamant that they would not form a government with the Left.) Besides, Mrs Merkel prefers the FDP, which "on substance is very close" to the CDU. She wants "to lead the coalition with the liberals to success."

In practice that will mean cutting taxes. The CDU finance minister, Wolfgang SchÃ¤uble, has misgivings, but revenues are gushing in, thanks to the strong economy, making it difficult to refuse. The coalition has promised a tax cut by the start of 2013, though there are fights to come over its size and shape. The liberals and some elements within the CDU want to lower immigration barriers to ease shortages of skilled labour. There is talk of reforming nursing-care insurance, which threatens to drain public finances as the population ages.

The euro could disrupt any such rapprochement, however. The risk may have risen with the statement this week by Standard & Poor's, a rating agency, that it would classify as a default a proposed swap of Greek bonds (see article). This makes it more uncertain than ever that private creditors can be induced to contribute to the Greek rescue, as the Bundestag has demanded. The Bundestag's say in any future measures needed to support the euro is likely to be strengthened by a constitutional court ruling later this year.

But the odds of a coalition break-up over the euro look small. Although the FDP harbours some reluctant MPs, Mr Lindner says "we have a strong interest in the stability of the government." That makes it less likely that Mrs Merkel will have to call a vote of confidence on the euro. Yet she is already looking beyond the crisis. She even predicts that "Europe will in the end be more competitive" because of it.

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Balkan peacemaking

A beginning

Serbia and Kosovo strike a small deal with big implications



TALKING to the delegation from Kosovo was "sometimes like talking to people from another planet." Thus Borko Stefanovic, the chief Serbian negotiator. The two sides' views seem irreconcilable. Kosovo, whose population is mostly ethnic Albanian, declared independence from Serbia in 2008; Serbia says it will never accept this. This makes news of a degree of agreement on July 2nd in talks between the two more remarkable.

A deal on licence plates, identity cards and university diplomas sounds small, but it is not. Kosovars with identity cards issued by their government will now be able to travel in and through Serbia. This will allow visits by those with family in south Serbia and also help those in the diaspora who now need Croatian visas. The deal is also good for Kosovo's Serbs who pay for both Serbian and Kosovar number plates and car insurance.

Predictably, nationalists in Kosovo and Serbia attacked the deal, which is expected to be followed by others. Serbia is on a slippery slope to recognising Kosovo, said Serbian critics. The agreement does not recognise Kosovo as a state, complained Kosovars. In fact, it was a victory for both common sense and the European Union. The talks were meant precisely to produce such practical steps. Never mind the details, says Isak Vorgucic, director of KIM radio, a Kosovo Serb station: "they agreed on something."

It helps that both sides want something from the EU in return. Serbia hopes to become an official candidate for membership soon. Kosovo is looking for a "road map" leading to visa-free travel. For Enver Hoxhaj, Kosovo's foreign minister, the significance of the deal is that it builds trust and shows that "we are willing to put the past behind [us]."

Serbia's government might have had a bad week. On July 4th Ratko Mladic, the former Bosnian Serb general accused of genocide, was thrown out of the court in The Hague after shouting at the judge. Luckily for Serbia, Novak Djokovic has just won Wimbledon. He is the new face of Serbia; Mr Mladic seems a cranky lunatic from the past. On his return to Belgrade Mr Djokovic was greeted by a huge crowd, including ageing rockers from the band Electric Orgasm.

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Charlemagne

The view from the Vistula

Poland's Donald Tusk must not be too ambitious in the rotating EU presidency



EUROPE has not enjoyed a feast like the one in Warsaw on June 30th for a long time: a glittering premiere of Szymanowski's "King Roger" at the national opera; a floral carpet made from 14,000 potted plants; open-air concerts across the city. And after midnight the Palace of Culture and Science, Warsaw's Stalinist landmark, came alight with dazzling fireworks.

So much fuss for so little. The opera programme boasted of Poland "taking over the leadership of the European Union", but the reality is prosaic. It will run the presidency of the Council of Ministers for six months, a lesser job in a system full of other "presidents": of the European Commission (the civil service), of the European Council (EU leaders) and of the European Parliament.

The rotating presidency has been stripped of many functions by the Lisbon treaty. Prime ministers no longer host summits: Herman Van Rompuy presides instead. Foreign ministers have their own permanent "high representative", Cathy Ashton, to look after them. Gatherings of the 27 finance ministers (Ecofin) are secondary to the 17-strong Eurogroup, which has its own president, Jean-Claude Juncker. What is left is rather humdrum. One task is to chair some sectoral councils, for instance of agriculture ministers. Another is negotiation with the European Parliament: important, but hardly glamorous.

All holders of the presidency face a dilemma. They want to stand out, yet are expected to set aside the national interest for the collective good. This may be too constraining for Poland, which sees its first-ever presidency as a step in the renaissance of a martyred nation. "We are going to see a lot more Poland and a lot less presidency," says one diplomat. Poland seems undecided about its place in Europe. Should it be the biggest of the EU's new members? Or should it be the newest of the big, on a par with Germany, France and Britain? It tries to be both, but risks doing neither well.

With an election due in October, the Polish prime minister, Donald Tusk, wants to show off his international credentials. He starts at an advantage: he is not Jaroslaw Kaczynski, his predecessor and twin brother of the late president, Lech Kaczynski, who died in an air crash in Russia last year. As leaders of the Law and Justice party, the twins' abrasive nationalism antagonised both Russia and Germany. By contrast, Mr Tusk has made up with Moscow and exudes a pro-Europeanism that is rare in these troubled times. The EU, he says, is "a great invention" to be preserved and revitalised. "The European heart is beating here on the Vistula and the Baltic Sea."

But this self-confident Euro-enthusiasm, bolstered by one of the fastest-growing EU economies, can easily stray into arrogance. Mr Tusk just about accuses his fellow EU leaders of hypocrisy for talking of integration and yet undoing the Schengen passport-free zone by reimposing some border controls. And Greece is a victim of the crisis, not the cause, he says, implying everyone else is guilty for the mess. Jacek Rostowski, the British-born finance minister, adds to the criticism. The euro zone's leaders fail to see their "vital national interest" in saving the single currency; populist parties opposing bail-outs are "breathtaking" in their short-sightedness. The loans to Greece, Ireland and Portugal promote too much austerity and too little growth.

So does Poland want to join the euro? Well, er, Poland has yet to meet the entry criteria. And in any case, it has conditions of its own: the euro zone must have a proper means of enforcing fiscal rules and a better crisis-management system. "There is no target date," says Mr Rostowski. And yet he craves admission to the Eurogroup-not as a participant, he says, but as an observer. Why should the head of the IMF attend but not the president of Ecofin? He has been allowed to listen in to part of one Eurogroup phone conference. Those who like an exclusive Eurogroup fret that, once the Poles are in the room, it may be hard to get them out.

Poland also seeks a bigger role in diplomacy and defence. It champions deeper relations with the EU's eastern borderlands. It will host a summit of the eastern partnership (EU countries and six neighbours), push for a free-trade deal with Ukraine and try to nudge more Balkan countries towards membership. Poland reckons it can offer something to the Arab spring too: the experience of casting off dictatorship. Though Poland was criticised by America for staying out of the air campaign in Libya, its foreign minister, Radek Sikorski, was the first to visit rebel-held Benghazi. It is also pushing for greater EU military integration.

Polish charges of EU egotism can grate. This is the country that has just blocked proposals to toughen the EU's carbon emissions target from 20% to 25% in 2020, over 1990 levels, mainly because of its dependence on coal. How can it pretend to speak for the EU at November's climate-change talks in Durban? Similarly, as the biggest recipient of regional aid, Poland wants a larger EU budget, setting itself against big countries, like Britain, that want a cut.

Blessed are the meek

Poland cannot be both preacher and supplicant. An overambitious presidency, even one that wears the halo of the EU's ring of gold stars, can stir more enmity than praise. A lucky presidency may complete negotiations begun by others. An unlucky one may draw unwanted attention to itself. The stint of Hungary, the outgoing president, began badly amid uproar over its media law, but ended well by closing accession talks with Croatia.

The exemplar of the competent, post-Lisbon presidency is Belgium. It was barely visible during its turn in the chair in the second half of 2010. With only a caretaker government, its ministers had lots of time to devote to EU business. If Poland craves blessing, it should show restraint and self-denial. Better modest success than glorious failure.

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The phone-hacking scandal

The lowest low

The phone-hacking saga jeopardises more than merely the News of the World: it threatens Rupert Murdoch, the press as a whole, the police and politicians



UNTIL this week, the victims in the scandal over the illegal hacking of mobile-phone messages by the *News of the World* seemed mostly to be celebrities, royals and others too privileged to command much sympathy. For the tabloid, that was a useful mitigation in the court of public opinion, if not in law. No longer. The sordid antics of Britain's biggest-selling Sunday paper-owned by News International, Rupert Murdoch's British newspaper outfit-look more promiscuous and more gravely criminal. And the circle of blame and taint is widening.

The big difference is Milly Dowler, a 13-year-old schoolgirl who was murdered in Surrey in March 2002. On July 4th the *Guardian* reported allegations that Glenn Mulcaire, a private investigator working with *News of the World* journalists, hacked into Dowler's voice-mail in the days after her disappearance, removing some messages to free up space when her account became full. The effect was to make her family think she might still be alive. The relatives of people killed in the terrorist attacks in London of July 2005, and of soldiers killed in Iraq and Afghanistan, might also have been targeted. Ditto the families of two girls murdered in Cambridgeshire in 2002: in a bizarre cameo in what is an increasingly baroque saga, the actor Hugh Grant made that link in April, in a covertly recorded interview with a former journalist. Tom Watson, a Labour MP, made an even more serious charge in Parliament on July 6th: that News International paid people to interfere in a murder case "on behalf of known criminals". The firm says it doesn't understand that accusation.

Mr Mulcaire was jailed in 2007 for hacking voice-mail messages of members of the royal household, along with Clive Goodman, the *News of the World*'s royal correspondent. At the time, and for a long time afterwards, executives at News International insisted that Mr Goodman was a lone, rogue operator. In the past few months that defence has collapsed, amid a deluge of civil cases brought by the lengthening list of hacking victims, pay-offs, and the arrest of more journalists. Yet the Dowler development has supercharged the scandal-not just because of its callous immorality but also because it potentially involves perversion of the course of justice, a new level of criminality.

Hanging separately

If much of this is true, there were no qualms, and few limits, in the way the paper went after scoops. There might be serious legal and commercial consequences for News International. But others have been discredited, too-not least the police.

On July 5th News International acknowledged that, last month, it gave the Metropolitan Police a set of e-mails documenting (illegal) payments to police officers from *News of the World* journalists in 2003 and after. That is only the latest aspersion cast on various police forces by this affair. The police in Surrey seem to have known about the Dowler hacking but overlooked it. Worse, the Met itself stands accused of failing for several years to notify potential victims of hacking and failing to pursue leads: the evidence for many recent allegations comes from notes seized from Mr Mulcaire in 2006. The Met launched a fresh probe, under new command, in January. But its contacting of targets remains mystifyingly lacklustre.

Whether intentionally or otherwise (News International says it wasn't), the news about police payments deflected attention onto Andy Coulson, the *News of the World*'s editor from 2003 to 2007-and thus, indirectly onto David Cameron. Mr Coulson resigned from the paper in 2007 after Mr Goodman and Mr Mulcaire were convicted, though he insisted that he knew nothing of their nefarious methods. He resigned again, this time from his job as Mr Cameron's communications chief, in January this year, as the hacking scandal escalated. Mr Cameron's judgment in hiring Mr Coulson after his tabloid escapades now looks ropier than ever (see Bagehot).

As it happens, Mr Coulson's predecessor as editor, and News International's current chief executive, Rebekah Brooks (above, with Mr Murdoch), is a close friend of Mr Cameron, too. Mrs Brooks was in the editor's chair in 2002; if the latest hacking allegations stand up, her position looks at least as compromised as Mr Coulson's was in 2007. But, so far, she has rebuffed calls for her resignation, declaring herself "shocked" at the latest charges and promising to "vigorously pursue the truth". Critics wonder whether Mrs Brooks, who has in the past been insouciantly unco-operative with parliamentary inquiries into phone-hacking, or indeed anyone else at News International, with its history of collective obfuscation, is well-placed to do that.

For the moment, at least, Mrs Brooks appears to be protected by what insiders describe as an intense, almost familial bond with Mr Murdoch, who is said to prize her business acumen and contacts: Mr Murdoch this week called the recent allegations "deplorable", but stood by her. Events might yet test just how much their bond is worth. Public anger has already persuaded several advertisers to suspend their dealings with the *News of the World*; some readers may choose to boycott it.

Still, Claire Enders, a media analyst, thinks the commercial impact is likely to be modest, given the paper's dominance in the Sunday newspaper market. Much worse, for Mr Murdoch, is the slim chance that the scandal might affect his bid to buy the rest of BSkyB, a hugely profitable satellite broadcaster in which News Corporation, his parent company, already has a 39% stake. Jeremy Hunt, the culture secretary, looked set finally to approve the deal after a consultation on its impact on media plurality ends on July 8th. Meanwhile Ofcom, the broadcasting regulator, is obliged to consider whether the holders of broadcasting licences are "fit and proper". It is "closely monitoring the situation".

In the gutter

And it isn't only the Murdoch press that is set to feel the backlash. Whereas in America journalism is a respectable, even venerated profession, in Britain it has always been regarded as grubby. But it has rarely been so reviled as now. Ed Miliband, the leader of the Labour Party, wants a public inquiry into the culture and regulation of the press; Mr Cameron agrees that there ought to be one or more inquiries, after criminal proceedings are over. One result might be a change to the current model of newspaper self-regulation; the Press Complaints Commission, the toothless body responsible for it, has handled the hacking affair woefully.

Most MPs were in the past much more diplomatic about the press, especially the Murdoch stable, which, so exaggerated legend had it, could decide the fate of governments. But the calculus for politicians has suddenly shifted. Mr Miliband's tough stance towards News International-he joined the clamour for Mrs Brooks's resignation-would have been unthinkable in the Blair years. Mr Cameron shied away from calling for his friend's head too, but described the allegations as "truly dreadful". And there may be more to come in this mad, metastasising story.

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Rebalancing the economy

Less paper, more iron

Politicians want to boost British manufacturing. Easier said than done



GEORGE OSBORNE has manufacturing, albeit of a rarefied sort, in his blood: his father's wallpaper company furnishes the homes of the well-to-do. Still, the chancellor's championing of industry (Britain must "make things again", he keeps saying) is odd for a free-market Conservative, and a measure of how much the country has changed since the financial crash. In good times, politicians only faced issues of distribution: how to spend the tax receipts from a booming banking sector. They are now grappling with questions of production: where will, and should, growth come from? The popular answer is industry, rather than flighty finance.

This ardour for "rebalancing" is understandable. Although manufacturing, at around 12%, is still a slightly bigger part of the economy than finance, its proportion has halved since the early 1990s. When finance is measured together with business services, such as auditing and consultancy, the combination is a bigger share of GDP than manufacturing. After a revival last year, helped by sterling's decline, industry is struggling again. On July 5th Bombardier, a trainmaker, announced plans to cut more than 1,400 jobs at its factory in Derby.

Unlike the British banks, whose combined balance-sheets dwarf the national economy, manufacturers do not require ruinous state bail-outs. Their wares have a plain usefulness that the frothier bits of finance cannot match. An industrial revival would scatter wealth around a country currently dominated by London and the south-east. There are telling prompts abroad, too. As Britain slouches its way out of recession, Germany zooms by, propelled in part by its export industries.

Exactly how Britain can achieve this rebalancing is less obvious. Mercifully, no mainstream politician espouses a return to outright protectionism. Bombardier's cutbacks come after it lost out to Siemens, a German rival, for a British government contract. Such lack of favour to a domestic firm would be politically unforgivable in some continental countries; in post-Thatcher Britain, it is normal, if unpopular.

The government's other options for boosting industry are limited. Mr Osborne is funnelling some money into science and apprenticeships. He is backing new high-speed rail lines, which could provide some immediate demand for manufacturers. By supporting the regions outside London, where manufacturing is often located, his "enterprise zones" might also help.

Whether all this is enough to reverse the decline of manufacturing is doubtful. It may be that policy can achieve only so much. Culture and history also help to decide the sector in which a country has a comparative advantage. Though Britain produced the Industrial Revolution, Germany has more recent form, with first-rate training of apprentices and decades of good relations between industry and labour. These cannot be replicated quickly.

Neither is it clear that industry is a safer bet than finance for Britain. On a recent visit to Downing Street, the foreign head of a multinational firm was asked by his hosts which country he thought had the better economic prospects, Britain or Germany. He chose Britain, arguing that its knack for finance and services would take longer for emerging economies to

emulate than Germany's industrial specialism. Arguably all the government can do is consolidate Britain's existing industrial strengths, which lie in sophisticated goods such as lenses, pharmaceuticals and space technology.

In a report on economic rebalancing published last year, the National Endowment for Science, Technology and the Arts (NESTA), in partnership with Oxford Economics, a consultancy, examined the viability and desirability of four scenarios between now and 2020. "Business-as-usual" would bring respectable growth but exacerbate regional inequalities and only slowly increase employment. A broad-based manufacturing revival-with the sector growing to 15% of the economy-would avoid these problems, but strikes the authors as implausible. More promising are scenarios where high-tech industry booms, or innovation drives growth. Even this will require the state to invest in human and physical capital and give business incentives to do the same. Losing Britain's current specialism-by over-taxing and regulating the City-will be easier than building a new one.

See our debate on the virtues of manufacturing at economist.com/manufacturing

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Paying for long-term care

Shades of grey

A sensible-but costly-plan for dealing with an old problem

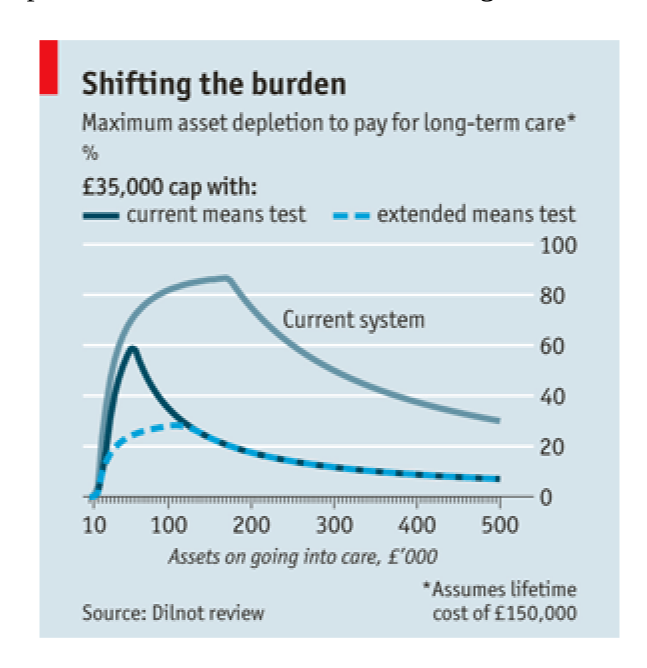


LIVING to a ripe old age should be cause for celebration. Alas, many elderly people live in fear of how they will endure it. Daughters who might once have assisted are these days often at work instead. Domestic help funded from savings may keep a pensioner at home for a few years, but when he becomes too doddery to make a cup of tea, he will be coaxed into residential care. In England this decline is often financially ruinous as well as traumatic: frail homeowners with no surviving spouse must pay eye-watering prices for care until their assets are all but exhausted.

The question of how to finance the long-term care of the elderly, and disabled adults of working age, has long vexed politicians. Last year the coalition government asked Andrew Dilnot, an economist at Oxford University, to come up with

a plan. In contrast to other reforms that are designed to transfer the costs of state services to those who incur them, such as students, Mr Dilnot's report, released on July 4th, suggests the exchequer should pay more.

Health care in England is free at the point of delivery; help with washing, dressing and eating is not (though it is in Scotland). At present, if a man needs such help and is poor and alone, the state will provide assistance at home free of charge; if he has a little money, he must pay for it all himself. Residential care, typically costing pound26,000 a year but sometimes much more, is likewise free for the poor; anyone who owns a home or has savings must run down his assets to pay. This prospect terrifies many. Most pensioners own their homes, worth an average pound160,000: if their health deteriorates, they stand to lose all but pound23,250 of their lifetime savings.



Mr Dilnot's solution is to limit the maximum sum that people would have to pay to between pound25,000 and pound50,000: he suggests pound35,000 would be appropriate. He also proposes that only those with assets worth pound100,000 or more should pay the full costs of care as they are receiving it, so that the poorer approach the limit more slowly than the relatively rich. Taken together, his proposals would ensure that no one loses more than 30% of his assets (see chart). That would be fairer to savers; setting a limit might also encourage insurers to develop products that would cover individuals' liabilities.

It would be costly for the state, however. Demand for elderly care has increased by 9% over the past four years, and it is set to rise further as life expectancy climbs (while the proportion of the population of working age shrinks). Funding for it, on the other hand, has stagnated. Cuts in central-government funds are already forcing local councils to reduce spending on adult social care by between 5% and 8% this year. (Mr Dilnot thinks local variation is unacceptable and wants national standards. The Law Commission, which helps Parliament tidy up legislation, agrees.)

This week's plan would add to the state's burden. Implementing it now would cost an extra pound1.7 billion a year, a bill that would spiral to pound3.6 billion by 2025.

So the government desperately wants to find a cheaper way to implement Mr Dilnot's otherwise sensible ideas, probably by accepting the idea of a cap on personal contributions but setting the limit higher than he envisages. Andrew Lansley, the health secretary, said the proposals would form "a basis for engagement" in future discussions. He promises a white paper in the spring, and legislation "at the earliest opportunity"-though any reform is unlikely to take effect until after the current round of spending cuts ends in 2015.

Attempts to rethink the care of the elderly and needy have in the past been blighted by political wrangling. In the run-up to last year's general election, Mr Lansley boycotted mooted cross-party talks and the Conservatives attacked Labour's allegedly heartless intentions. But Ed Miliband, Labour's leader, has offered to co-operate with the other party leaders on this issue. Reason, perhaps, for those approaching old age to be a little more cheerful at the prospect.

Health care

Doctors galore

To understand the benefits of health-care reform, look at Scotland

GLASGOW'S refurbished Royal Infirmary still has the fresh-paint smell of a hospital after a makeover. It recently incorporated the inpatient beds and casualty unit of Stobhill hospital, in the northern part of the city, which shrank. A total of pound42m has been spent on the expanded infirmary. "It's our pride and joy," says Jamie Watt, a visitor to one of its wards.

Not everyone is so pleased. Built as a poor-law hospital to treat the needy at the start of the 19th century, Stobhill had a proud civic history as a forerunner of the NHS. Scottish worthies including Charles Kennedy, a former Liberal Democrat leader, and Lord Martin, once speaker of the House of Commons, campaigned in vain to keep Stobhill as it was.

It is the kind of limited administrative shift that typifies Scotland's health-care policy these days: smaller hospitals folded into bigger ones, with extra investment attached to assuage local concerns. What is not up for political discussion, a decade after devolution granted managerial freedom to the country, is the basic shape of the Scottish NHS, or whether it represents value for money.

For the visitor from south of the border Scotland is a looking-glass world. No turbulent rows over health reforms (or U-turns) rend the air as they do in England, where the coalition government has just relaunched plans to transform the English NHS. A brief Blair-era attempt to create a purchaser-provider split and increase patient choice was scrapped in Scotland in 2004. In contrast to England, there is no internal market, no providers paid by results and no truck with private-sector experimentation. Nicola Sturgeon, the deputy first minister responsible for health, makes clear that her ruling Scottish National Party sees no grounds for such developments. Failing Scottish hospitals are not "named and shamed" in public, a tactic many believe has driven improvements in the NHS in England.

Don't take the high road

Does this serene state of non-reform benefit Scotland's patients? If money spent were any indication, it should. Health-care spending is 9% higher per head than in England; in 2002 the gap was 16%. The official explanation for that premium is that Scotland must deliver health services to 8% of Britain's inhabitants spread over almost a third of its land mass, including pockets of extreme health-care needs. That is partly true-though relatively few patients live in remote areas where services are hardest to deliver, and NHS spending per person is higher in Scotland than in England's deprived north-east.

But an analysis of health-care outcomes by the Nuffield Trust, updated this week, has produced worrying evidence about productivity and efficiency in Scotland. Comparing the country with England, Wales and Northern Ireland on data from 1996-97 to 2006-07, the Nuffield study found more NHS hospital doctors and dentists, nurses, midwives and health visitors per resident in Scotland than elsewhere. Yet they handled fewer outpatient appointments and day cases apiece than their counterparts in England, and earlier figures suggest that their rate of inpatient admissions may have been lower too. Fewer Scottish ambulances responded quickly to potentially life-threatening emergency calls. Productivity fell in all of Britain's health services after money was hurled at them from 2000. In unreformed Scotland the glut of cash notably boosted staff numbers more than staff activity.

The Nuffield authors did find that Scots had a rosier view of the general running of their NHS than people in England, Wales and Northern Ireland. Small wonder, perhaps, as they do not pay for either prescriptions or hospital parking (a sore point in England). But they are beginning to lose out on more expensive cancer drugs, as the block grant from Whitehall is reduced and budget cuts begin to bite.

John McLaren of the Centre for Public Policy for the Regions, a think-tank based in Edinburgh, says that devolution has "reinforced the tendency to resist lessons from elsewhere-our health-care system isn't as good as England's, and other countries are doing a lot better." Nuffield's message will rile the Scots, but the English, whose tax money funds their system-and where the latest round of market-based health-care reform is so controversial-should take note too.

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Crop circles

Strange fruit

The costs and benefits of rural mysticism



Farm life, but not as we know it

WHETHER extraterrestrials or pranksters are to blame, in the Wiltshire countryside crop circles are costly: around pound1,000 each, says Tim Carson, a farmer in the village of Alton Barnes, whose land has been dotted by 125 circles since 1991. Lost crops have become part of his annual routine, because his corner of the county is the global centre for crop circles. Fifty or more formations appear in Britain's fields each year, usually between May and August; around three-quarters are in Wiltshire.

They are likely to make farmers especially cross in what has already been a tricky year. Fuel and fertiliser prices have risen; a dry spring means yields are expected to be down 25-30% on last year in the south-west. Now Wiltshire is being trampled by summer tourists, many of them mystically inclined. Some circular formations are visited by thousands of these enthusiasts, causing further damage to crops and sometimes property.

Occasionally, there is an upside for farmers. In 1998 commercial circle-makers acting for Mitsubishi, a Japanese carmaker, paid Mr Carson for the right to cut an outline of a new model named the Space Star in his fields. The commission "more than compensated for the loss of crop", he says. Shredded Wheat, a breakfast cereal, once had its logo carved in a wheat field. Some landowners charge for entry or solicit donations, though the tale of the farmer who made pound30,000 from tourists is exceptional.

But while farmers tend to suffer, others gain. The circles augment a mystical aura that emanates from Stonehenge, and that contributes hugely to Wiltshire's pound850m tourism industry. Visitor shops are stuffed with crop-circle memorabilia; coach tours frequent them. At the Barge Inn, a community-owned pub in Honeystreet, drinkers enjoy tipples named Croppie, Alien Abduction and Away With The Fairies. The pub has customers from all over the world, even out of season, and the nearby formations have "no doubt benefited the business", says Terry Kemp, who works there.

The exact value of crop circles to the broader economy is unclear. Visit Wiltshire, the county's tourism agency, is understandably reluctant to comment, given that acts of trespass and criminal damage are involved. But perhaps if the upside were better understood, the benefits might be more fairly shared.

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Bagehot

Strong, weak David Cameron

A revealing week of twin crises at home and abroad



AS A rule, a Royal Air Force transport over Afghanistan is a poor place for collecting political intelligence. The engines are loud and the ride not smooth, as pilots swoop and roll to lessen the threat of attack from the ground. Thus it signalled that something urgent was afoot when David Cameron's director of communications, Craig Oliver, began clambering about on a cramped flight out of Kabul on July 5th. He wanted to ask reporters accompanying the prime minister their thoughts on some breaking news.

The two-day trip had already been touched by crisis. A plan to visit the town of Lashkar Gah, intended to show off improving security, was called off after a young soldier-one of 9,500 British troops in Afghanistan-went missing nearby, and was later found dead. Bagehot watched Mr Cameron handle the grim setback with assurance. As British forces searched for the soldier, the prime minister declared he would not use valuable helicopters on his own account. His sympathies expressed, he returned to his main task: explaining what Britain is doing in Afghanistan.

Mr Oliver's breaking news involved a grubbier crisis: fresh allegations against the *News of the World*, a tabloid mired in ever-widening claims that it obtained scoops by illegally hacking into the mobile-phone messages of celebrities, politicians and other public figures. This time, the accusation was that the paper had hacked into the voice-mail of Milly Dowler, a schoolgirl whose abduction and murder in 2002 were front-page news.

Mr Cameron's reaction was less assured. Questioned amid the shady pines and fountains of the presidential palace in Kabul, he blustered, calling the Milly Dowler allegations "really appalling," and if true, a "dreadful situation". A day later, back in the House of Commons, he was still awkward. He bowed to demands from the opposition Labour Party for a public inquiry into phone-hacking. He agreed that police foot-dragging over the affair looked troubling. But then he said a public inquiry (or inquiries) might have to wait until the same police completed a criminal probe. Labour gleefully called Mr Cameron "out of touch".

There are some straightforward reasons for Mr Cameron's caution. Until January this year, the Downing Street head of communications was Andy Coulson, a former *News of the World* editor who resigned in 2007 after his royal correspondent and a private investigator were jailed for conspiracy to intercept voice-mail messages (Mr Coulson denied any knowledge of wrongdoing). Saying Mr Coulson deserved a second chance, Mr Cameron hired him as his PR chief, then stood by him until months of digging, notably by the *Guardian*, forced the ex-editor to resign for a second time in January. (The prime minister should send the *Guardian* flowers: if Mr Coulson were still in office, his whole government would be in crisis.)

And like all recent prime ministers, Mr Cameron is close to bosses at News International, parent company of the *News of the World*, the *Sun*, *Times* and *Sunday Times*. He calls Rebekah Brooks, the firm's chief executive, a friend. Alas, Mrs Brooks was *News of the World* editor when Milly Dowler's phone was allegedly hacked (she says it is "inconceivable" she knew of such acts).

The confidence trick

But other lessons can be drawn from this week's tale of two crises. Britain's deployment in Afghanistan amounts to a three-sided puzzle of high politics. On one side, most British voters no longer understand why troops are still there: internal government polling shows only about 40% believe Britain's presence helps protect national security. Against that, the British hate losing wars, and would dislike even a half-defeat in which a decade of spilled blood bought only a thuggish Afghanistan in which the Taliban play a big role. Finally, Mr Cameron is a junior partner with limited autonomy. British generals may dislike talk of pulling troops out of Afghanistan too soon, but Barack Obama is pulling tens of thousands out by September 2012.

Mr Cameron is confident in such tight spots. When public opinion is uncertain, Mr Cameron relishes explaining his case. Visiting Camp Bastion, an Ozymandian citadel that has sprung from the Afghan desert, he said the goal was not to create a "perfect country", but an Afghanistan able to secure itself and deny terrorists a safe haven. In his telling, early thoughts of nation-building were unrealistic, then during the Iraq war the allies took their eyes off Afghanistan. Now, though winning hearts and minds is "helpful", security unlocks the Afghan puzzle. Mr Cameron thinks that-for all the risks-setting a departure date (and making clear some Taliban will feature in a final political settlement) focuses minds in Kabul and among the British armed forces too. If his generals disagree, he will overrule them. In short, he is a man at ease with the exercise of formal authority.

In contrast, the sordid saga of phone-hacking revolves around low politics and the changeable tempests of mass opinion. In such a context, Mr Cameron's confidence seems to desert him.

Consider the evidence. Alone in Mr Cameron's rarefied inner circle, Mr Coulson offered Mr Cameron a gut feel for the popular mood. That, close observers say, helps explain why the ex-editor survived so long. Faced with loud popular or even press hostility-as over health-service reforms or planned changes to sentencing policy-Mr Cameron changes course.

Mr Cameron's enemies accuse him of swaggering overconfidence. In fact, a week of twin crises-of war in Afghanistan and sleaze at home-suggests something more complex. Assured in his office, he is ill-at-ease in matters of raw power, and in the face of public fury. That timidity has led him to some of his worst mistakes, from policy U-turns to embracing Mr Coulson. And more crises lie ahead, of both high and low politics.

Women in political dynasties

The distaff of office

More sisters, daughters and wives of powerful leaders are taking the top political jobs



"LET'S hear it for Dubai!" Yingluck Shinawatra led the crowd's roar of approval at a campaign stop in Thailand, leaving little doubt of where her political allegiances lie: the Gulf city is home to her brother, the deposed and exiled prime minister, Thaksin Shinawatra. "If you love my brother", she said at another rally, "will you give his younger sister a chance?"

Ms Yingluck's victory in Thailand's general election on July 3rd is the latest example of an intriguing and, it seems, growing trend: for the sisters, daughters and widows of former leaders to take over the family political business on the death, retirement or-in Mr Thaksin's case-exile of the founder. There are now more than 20 female relatives of former leaders active in national politics around the world. They include three presidents or prime ministers and at least half a dozen leaders of the opposition or presidential candidates (see table). There are no historical numbers for proper comparison, but it is hard to think of another period-certainly no recent one-when so much dynastic authority has been flowing down the female line.

Wives and daughters

Current female leaders who are related to former presidents or national leaders

	Country	Position	Relative
Widows			
Sonia Gandhi	India	President, Congress party	Former prime minister Rajiv
Imelda Marcos	Philippines	Congresswoman	Former president Ferdinand
Khaleda Zia	Bangladesh	Leader, Bangladesh Nationalist Party	Former president Ziaur Rahman
Wives			
Hillary Clinton	United States	Secretary of state	Former president Bill
Cristina Fernández	Argentina	President	Former president Néstor Kirchner*
Nana Konadu Rawlings	Ghana	Candidate to lead ruling party	Former president Jerry
Sandra Torres	Guatemala	Was going to run for president	President Álvaro Colom (now divorced)
Sister			
Yingluck Shinawatra	Thailand	Prime minister in waiting	Former prime minister Thaksin
Daughters			
Nurul Izzah Anwar	Malaysia	Member of parliament	Opposition leader Anwar Ibrahim
Gloria Macapagal Arroyo	Philippines	Congresswoman, former president	President Diosdado Macapagal
Martine Aubry	France	Possible presidential candidate	Former president of European Commission Jacques Delors
Aung San Suu Kyi	Myanmar	Opposition leader	Independence leader Aung San
Keiko Fujimori	Peru	Loser, presidential election, 2011	Former president Alberto
Maria Gaidar	Russia	Former deputy governor, Kirov Oblast	Former prime minister Yegor
Park Geun-hye	South Korea	Candidate, 2012 presidential election	Former president Park Chung-hee
Sheikh Hasina	Bangladesh	Prime minister	Former president Mujibur Rahman
Kaja Kallas	Estonia	Member of parliament	Former prime minister Siim
Marine Le Pen	France	Presidential candidate	Former party leader Jean-Marie
Mariam al-Mahdi	Sudan	A leader of main opposition party	Last elected prime minister
Zury Ríos Montt	Guatemala	Congresswoman	Former dictator Efraín
Dariga Nazarbayeva	Kazakhstan	Possible successor	President Nursultan
Granddaughter			
Alessandra Mussolini	Italy	Member of parliament	Former Duce Benito

Source: *The Economist* — *Widowed following her election

Some of these women have made it on their own. Others are at last getting a fairer share of the dynastic privileges that used to accrue to men. Family name confers brand recognition, useful contacts and financial contributions-all of which are vital in democracies, and become more so as retail politics become more important. So America has not only its Bush and Kennedy clans, but the Daley family of Chicago, the Cuomos of New York, the Udalls of the Rocky Mountain states. As politics becomes more professional and specialised -with politicians increasingly knowing no other walk of life-the advantages of being brought up in its ways and wiles grow greater. Violet Bonham Carter, daughter of H.H. Asquith, a British prime minister, told Winston Churchill that her father had talked to her about affairs of state as a child. "I wish I could have had such talks with mine," was Churchill's reply, of his austere parent. Many of today's political daughters have Lady Violet's advantages.

Power behind, and on, the throne

In the past, widows or daughters inherited their position. Sonia Gandhi, president of India's ruling Congress party, is the widow of Rajiv, a former prime minister and scion of the Gandhi dynasty founded by Jawaharlal Nehru, India's first prime minister, which descended through his daughter, Indira. This set a pattern in South Asia. In Sri Lanka, Chandrika Kumaratunga, president from 1994 to 2005, has the unusual distinction that not one but both parents served as prime minister. In Bangladesh the leaders of the main political parties, called the "battling Begums", are each related-one, the widow, the other, a daughter-to the first two presidents of the country.

In South-East Asia, Aung San Suu Kyi owes her moral authority not only to her courage in standing up to the Burmese army, but also to her family: her father, Aung San, led Burma's independence movement. When Indonesia was seeking a new start after the removal of its long serving dictator, Suharto, it turned to Megawati Sukarnoputri, the daughter of the man he overthrew. In the Philippines the past three presidents have been the widow of an opposition leader (Corazon Aquino), the daughter of a president (Gloria Macapagal Arroyo) and Corazon's son, Noynoy (none of his four sisters has gone into politics). And in case you think widows matter only in such rickety democracies as the Philippines and South Asia, consider that in America, eight senators and 38 Congresswomen have directly succeeded their husbands in their seats since 1921.

At the moment several new factors are combining to favour the distaff side more. In the West it is no longer exceptional for women such as Martine Aubry or Marine Le Pen to run for the highest office. In Asian countries it now seems easier for a dynasty's founder to pass over talentless playboys in favour of more intelligent and perceptive daughters. Zulfikar Ali Bhutto did this when choosing Benazir to run his Pakistan People's Party, overlooking his son, Murtaza, who was also a member of parliament. Thaksin Shinawatra's choice of his youngest sister, Yingluck, rather than any of his seven other siblings-one of whom is a party leader-was similarly vindicated by her performance on the stump.

First daughters

In two countries, special factors explain the rise of political daughters. Park Geun-hye in South Korea and Keiko Fujimori in Peru got early starts in the family business: both had to step into their mother's shoes and act as first lady while still at school. Ms Park's mother was assassinated; Ms Fujimori's parents divorced during her father's presidency.

Some political families seek to extend their authority by passing the presidency from husband to wife-a Latin American tradition extending at least as far back as Isabelita, Juan Peron's third wife. Cristina Fernandez took over Argentina's presidency from her late husband Nestor Kirchner. Sandra Torres, now divorced from Guatemala's president, Alvaro Colom, wanted to run for his job. He was excluded by term limits-and the electoral authorities decided that, as a close family member, albeit a divorced one, so was she.

Perhaps the most powerful trend now boosting the influence of political daughters is the family need to tame-for electoral purposes-the authoritarian character of fathers. Daughters seem to embody their male relatives' agenda-but with the rough edges planed away. A remarkable number of today's presidential contenders are daughters of strongmen: Ms Park in South Korea, Ms Le Pen in France, Peru's Ms Fujimori, Zury Rios Montt in Guatemala, Dariga Nazarbayeva in Kazakhstan. Ms Yingluck is a variation on the theme: on the campaign, she toned down her brother's populism and made a virtue of being untainted by his corruption. Alessandra Mussolini turns out to have been a trailblazer: the kinder, gentler face of fascism.

John Knox, a 16th-century Calvinist, condemned the governments of Queens Elizabeth and Mary (of Scots) as "this monstrous regiment [rule] of women". The new generation of wives and daughters may perhaps improve upon their male forebears. But this is dynastic politics still-with the back-stabbing, family feuds and lack of accountability that come with it.

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Polling religion

Unequal zeal

In the market-place of faith, some beliefs are more fervent than others

AMONG people who predict that some deep fault line is emerging between Islam and the West, there is often confusion over who is pitted against whom. On one side, presumably, are the Muslim faith and its adherents. And on the other? Some say Christianity and its cultural and moral legacy, which may linger even where specific beliefs have evaporated.

Others would say the counterpoint to Islam was liberal, secular humanism-which might just be compatible with Christianity, or other faiths, as long as they are not very keenly practised. If the second view is right, what creates tensions between Muslims and the West is not Christian teachings, or different ideas about the nature of God, but the lack of any religion in the public or private lives of many Westerners.

Some useful raw material for this discussion is provided by research published this week by Ipsos MORI, the global polling organisation, and the Tony Blair Faith Foundation (a body that reflects the ex-prime minister's belief that religion can promote peace and development). As you might expect, the vast (94%) majority of respondents in the three mainly Muslim countries studied (Saudi Arabia, Turkey and Indonesia) said religion was important in their lives, whereas, among self-described Christians in 19 countries, only 66% said likewise. But among the 65% of Americans who called themselves Christian, some 86% deemed faith important, whereas among Christians in France and Sweden, the figures were 36% and 42%.

In the three Islamic countries, 61% of Muslims are inclined to the view that "my faith is the only true path to salvation, liberation or paradise", whereas only 19% of Christians were similarly confident. The pollsters probed a little further by investigating whether, among respondents who saw their faith as the "ultimate truth", people who did not share that belief could still be deemed to have some hope of salvation. That formula found favour among the same proportion (22%) of Christians as of Muslims (and incidentally, 29% of Hindus). It may of course be that Muslims found the formula too sloppily generous to others whereas Christians deemed it insufficiently so. As for Mr Blair, he found in the poll results "much to encourage the view that people can learn to respect those of another faith." From somebody who is committed to optimism in these matters, that is a cautious statement of hope.

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A special report on the news industry

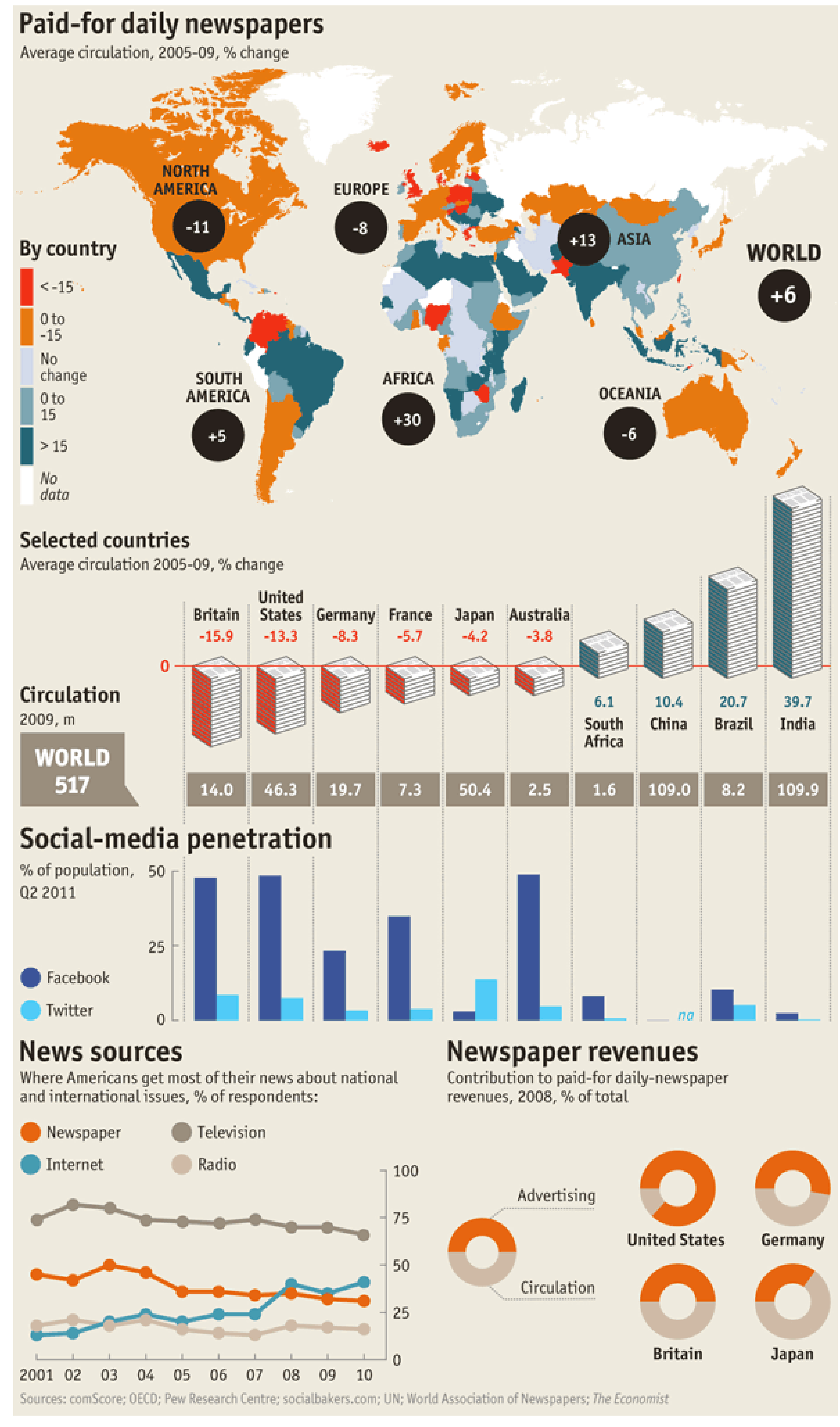
Bulletins from the future


Viktor Koen

EVEN IF YOU are not a news junkie, you will have noticed that your daily news has undergone a transformation. Television newscasts now include amateur videos, taken from video-sharing websites such as YouTube, covering events like the Arab spring or the Japanese tsunami. Such videos, with their shaky cameras and people's unguarded reactions, have much greater immediacy than professional footage. Messages posted on Twitter, the microblogging service, have been woven into coverage of these events and many others. "You have these really intimate man-in-the-street accounts, and you can craft a narrative around them," says Jack Dorsey, co-founder of Twitter. A computer consultant in Pakistan

unwittingly described the raid on Osama bin Laden's compound in a series of tweets. The terrorist attacks in Mumbai in 2008, too, were reported on Twitter in real time by people who were there.

The past year has also seen the rise to fame of WikiLeaks, an organisation that publishes leaked documents supplied to it anonymously. WikiLeaks and its media partners have published detailed records of the Afghan and Iraq wars, hundreds of classified American diplomatic cables and records from the Guantanamo Bay detention centre. "We believe that true information does good," says Julian Assange, WikiLeaks' founder. "Our goal is not just to have people reading documents, but to achieve political reforms through the release of information."


Paid-for daily newspapers
Average circulation, 2005-09, % change
NORTH AMERICA
-11
EUROPE
-8
+13
ASIA
WORLD
+6
By country
< -15
0 to -15
No change
0 to 15
> 15
No data
SOUTH AMERICA
+5
AFRICA
+30
OCEANIA
-6
Selected countries
Average circulation 2005-09, % change
Britain -15.9
United States -13.3
Germany -8.3
France -5.7
Japan -4.2
Australia -3.8
0
6.1 South Africa
10.4 China
20.7 Brazil
39.7 India
Circulation
2009, m
WORLD
517
14.0
46.3
19.7
7.3
50.4
2.5
1.6
109.0
8.2
109.9
Social-media penetration
% of population, Q2 2011
50
25
0
Facebook
Twitter
na
News sources
Where Americans get most of their news about national and international issues, % of respondents:
Newspaper
Television
Internet
Radio
100
75
50
25
0
2001
02
03
04
05
06
07
08
09
10
Newspaper revenues
Contribution to paid-for daily-newspaper revenues, 2008, % of total
Advertising
Circulation
United States
Germany
Britain
Japan
Sources: comScore; OECD; Pew Research Centre; socialbakers.com; UN; World Association of Newspapers; The Economist

In January this year Al Jazeera, a news organisation based in Qatar, published its own cache of leaked documents, known as the Palestine Papers, which lifted the lid on more than a decade of Israeli-Palestinian negotiations. And by broadcasting amateur videos of the Tunisian uprising to its millions of satellite viewers across the Arab world, the channel played an active role in spreading the protests across the region. Among television news organisations it has led the way in integrating social media (such as tweets, Facebook posts and amateur online video) into its operations in order to engage with its increasingly wired audience. "The way we operate has changed because the landscape has changed dramatically," says Moeed Ahmad, the firm's head of new media.

Clearly something dramatic has happened to the news business. That something is, of course, the internet, which has disrupted this industry just as it has disrupted so many others. By undermining advertising revenue, making news reports a commodity and blurring the boundaries between previously distinct news organisations, the internet has upended newspapers' traditional business model. But as well as demolishing old ways of doing things, it has also made new ones possible. As patterns of news consumption shift, much experimentation is under way. The internet may have hurt some newspapers financially, but it has stimulated innovation in journalism.

Reporters all

For consumers, the internet has made the news a far more participatory and social experience. Non-journalists are acting as sources for a growing number of news organisations, either by volunteering information directly or by posting comments, pictures or video that can be picked up and republished. Journalists initially saw this as a threat but are coming to appreciate its benefits, though not without much heart-searching. Some organisations have enlisted volunteers to gather or sift data, creating new kinds of "crowdsourced" journalism. Readers can also share stories with their friends, and the most popular stories cause a flood of traffic as recommendations ripple across social networks. Referrals from social networks are now the fastest-growing source of traffic for many news websites. Readers are being woven into the increasingly complex news ecosystem as sources, participants and distributors. "They don't just consume news, they share it, develop it, add to it-it's a very dynamic relationship with news," says Arianna Huffington, co-founder of the *Huffington Post*, a news website in the vanguard of integrating news with social media.

As well as making Twitter, Facebook and Google part of the news ecosystem, the internet has also made possible entirely new kinds of specialist news organisations. It has allowed WikiLeaks, for example, to accept documents anonymously and publish them to a global audience, while floating in cyberspace above national jurisdictions, operated by a small, nomadic team. Other newcomers include a host of not-for-profit news organisations that rely on philanthropic funding and specialise in particular kinds of journalism. Many of these new outfits collaborate with traditional news organisations, taking advantage of their broad reach and trusted, established brands.

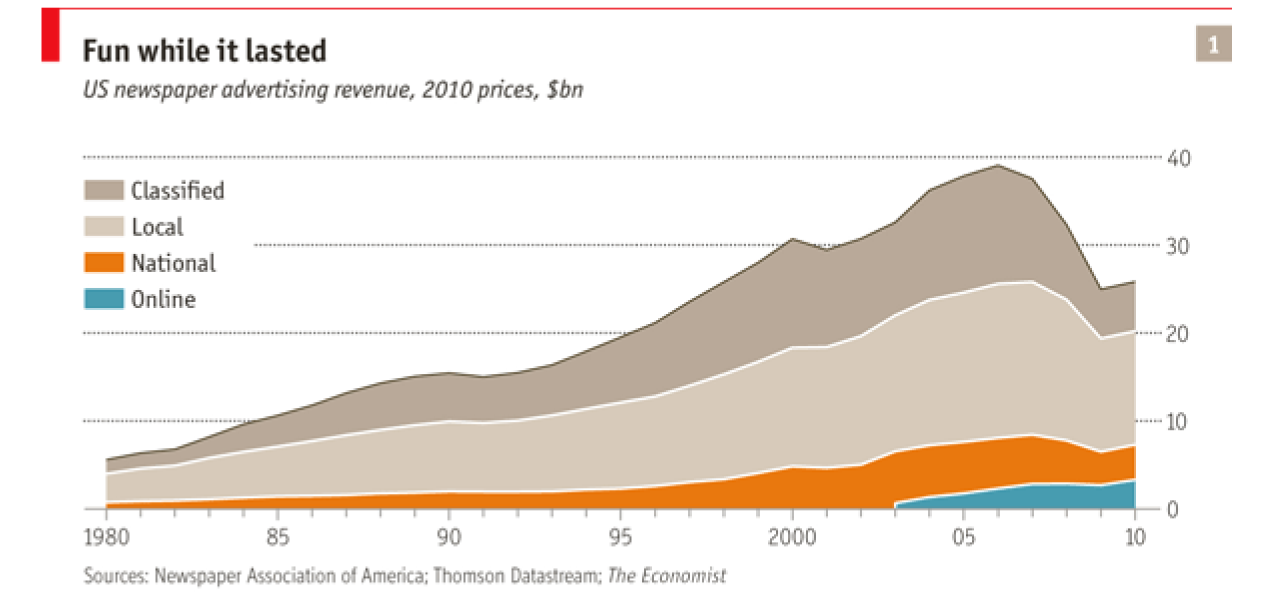
All these new inhabitants of the news ecosystem have brought an unprecedented breadth and diversity of news and opinion to the business. This has cast new light on a long-running debate about the politics of journalism: when there are so many sources, does political objectivity become less important?

This special report will consider all these trends in turn, starting with a look at the state of the industry and the new business models that are emerging. It will argue that as news becomes more social, participatory, diverse and partisan, it is in many ways returning to the more chaotic, freewheeling and politically charged environment of the era before the emergence of mass media in the 19th century. And although the internet has proved hugely disruptive to journalists, for consumers-who now have a wider choice than ever of news sources and ways of accessing them-it has proved an almost unqualified blessing.

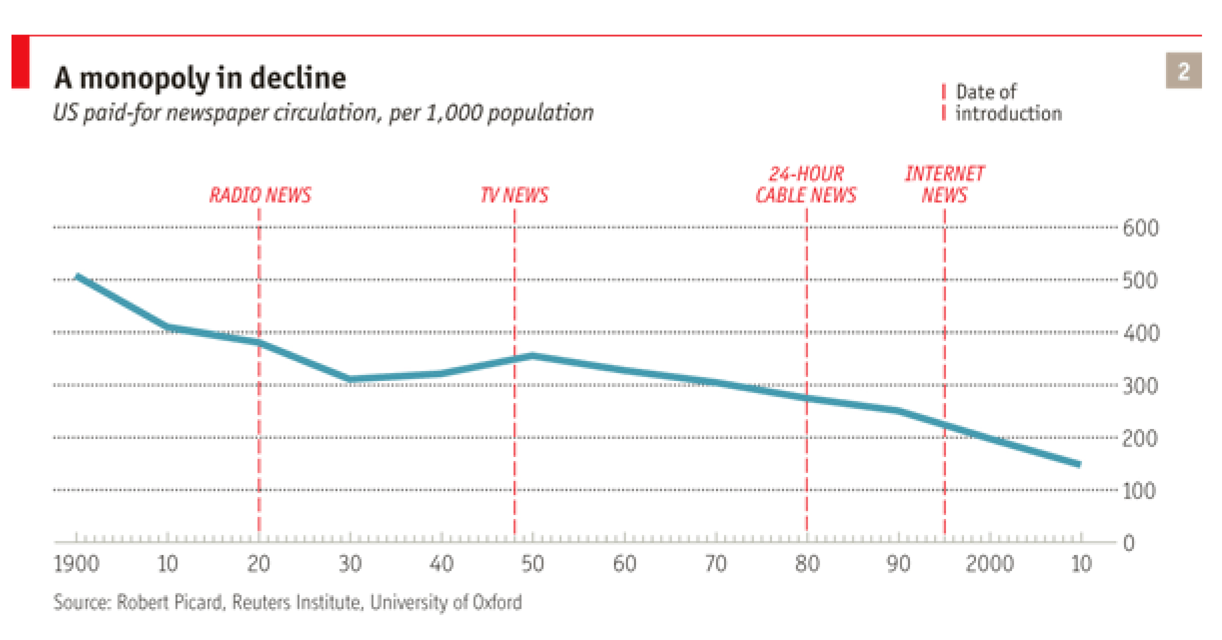
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A special report on the news industry: How newspapers are faring

A little local difficulty



"WHO KILLED THE newspaper?" That was the question posed on the cover of *The Economist* in 2006. It was, perhaps, a little premature. But there is no doubt that newspapers in many parts of the world are having a hard time. In **America**, where they are in the deepest trouble, the person often blamed is Craig Newmark, the founder of Craigslist, a network of classified-advertising websites that is mostly free to use. Mr Newmark has been called a "newspaper killer" and "the exploder of journalism", among other things. The popularity of Craigslist, the ninth most popular website in America, has contributed to a sharp decline in newspapers' classified-advertising revenue (see chart 1)-a business where many newspapers have had comfortable local monopolies for decades. Sitting in a cafe in San Francisco, Mr Newmark looks an unlikely assassin. Did he kill newspapers? "That would be a considerable exaggeration," he says with a smile.



The internet-driven fall in classified-ad revenue is only one of the reasons for the decline of newspapers in America, which started decades ago (see chart 2). The advent of television news, and then cable television, lured readers and advertisers away. Then the internet appeared in the 1990s. A new generation of readers grew up getting their news from television and the web, now the two leading news sources in America (the web overtook newspapers in 2010 and is already the most popular source among the under-30s).

These technological shifts hit American newspapers particularly hard because of their heavy reliance on advertising. According to the OECD, a club of developed countries, in 2008 America's newspapers collectively relied on advertising for 87% of their total revenue, more than any other country surveyed. The 2008-09 recession made things worse. Between 2007 and 2009 newspaper revenues in France fell by 4%, in Germany by 10% and in Britain by 21%. In America they plummeted by 30%. On top of that, a series of mergers and acquisitions in the American newspaper business left many companies saddled with huge debts and pushed several into bankruptcy.

For American regional and metro-area newspapers, further job cuts, closures and consolidation now seem likely. In retrospect it is clear that the industry became too dependent on local advertising monopolies. "The real trouble that a lot of US news organisations have is that they are defined by geography-by how far trucks could go to deliver papers in the morning," says Joshua Benton, head of the Nieman Journalism Lab at Harvard University. The internet has undermined that business model by providing alternatives for both advertisers and readers.

The health of newspapers is particularly important because they tend to set the agenda for other news media and employ the most journalists. In America, for example, the national television networks had around 500 journalists on their staff in 2009, compared with more than 40,000 for daily newspapers (down from 56,000 in 2001). But it would be wrong to conclude from the woes of American newspapers that newspapers and news are in crisis everywhere.

"The United States is the worst case that we see worldwide, and a lot of media news comes out of the US, so it is exceedingly negative. But the US experience is not being replicated elsewhere," says Larry Kilman, deputy head of the World Association of Newspapers (WAN), an industry body. "There's an assumption that there's a single crisis affecting all news organisations, and that's not the case," says David Levy, director of the Reuters Institute for the Study of Journalism at Oxford University. "There are different kinds of crisis in different countries, and some countries in the developing world are experiencing expansion rather than decline."

Newspapers in **western Europe** are having to manage long-term decline rather than short-term pain. In **Germany**, the biggest market, a 10% drop in revenue amid the worst recession in a generation "is not a terrible result", says Rasmus Kleis Nielsen, a colleague of Mr Levy's at the Reuters Institute and co-author with him of a recent book, "The Changing Business of Journalism and its Implications for Democracy". That does not mean the German industry is immune to long-term changes. "But broadly speaking, the German industry has a large and loyal audience, strong brands and editorial resources to manage that transition," says Mr Nielsen. Many European newspapers are family-owned, which helps to protect them in difficult times.

In **Japan**, home to the world's three biggest-selling daily newspapers (the *Yomiuri Shimbun* alone has a circulation of more than 10m), circulation has held up well, in part because over 94% of newspapers are sold by subscription. But there is trouble on the horizon. Young Japanese do not share their elders' enthusiasm for newsprint, and advertising revenues are dropping as the population ages.

The number of newspaper titles in **Russia** increased by 9% in 2009, but it might be no bad thing if a few newspapers died, particularly those "useless" titles that are merely mouthpieces for the local authorities that fund them, says Elena Vartanova, dean of the journalism school at Moscow State University. The Kremlin controls 60% of Russia's newspapers and owns stakes in all six national television stations. In a country where newspapers were traditionally used as propaganda tools, online news sites offer an opportunity to break with the past. But there is a clear divide between the internet-savvy youth, who get their news online, and the old and rural populations, who depend on state-run television.

Hungry for news

There is certainly no sign of a news crisis in **India**, now the world's fastest-growing newspaper market. Between 2005 and 2009 the number of paid-for daily newspapers in the country increased by 44% to 2,700 and the total number of newspapers rose by 23% to more than 74,000, according to the WAN. In 2008 India overtook China to become the leader in paid-for daily circulation, with 110m copies sold each day. Newspaper and magazine advertising expenditure increased by 32% in the year to June 2010, according to Nielsen India, a market-research firm.

Television news is also booming: of more than 500 satellite channels that have been launched in India in the past 20 years, 81 are news channels. The field is dominated by private firms with interests in both news and entertainment media, so the emphasis is on sensationalist, "Bollywoodised" coverage of celebrities, says Daya Thussu at the University of Westminster in London. Most news outlets are openly partisan. Thanks to India's vast population, there is scope for growth in print media for years to come. "Indian publishers come to newspaper conferences and complain that it's too focused on digital, not enough on print," says Mr Kilman. But Mr Levy wonders whether the greater interest in news in fast-growing India and **Brazil** will prove to be a short-term phenomenon that will be undermined by the spread of internet access.



Viktor Koen

China is another market where news media are growing rapidly, but the strict controls on them have intensified in recent months. A private media industry was allowed to develop only in the 1990s. The combination of social change, increasingly savvy readers, a booming advertising market and the need to reconcile credibility among readers with state controls has created a very confusing environment, says David Bandurski at the University of Hong Kong. Media firms must dance skilfully "between the party line and the bottom line", in the memorable phrase of Zhao Yuezhi, an analyst of the Chinese media scene.

Officially the state permits watchdog journalism, known as "supervision by public opinion", but in practice news outlets are wary of offending local party officials. One way around this used to be for reporters to expose wrongdoing in other provinces, but a ban on "cross-regional" reporting put an end to that. Journalists must identify areas where muckraking will be permitted by officials, or ensure that their own political connections will provide them with sufficient cover.

A new tactic, which became particularly popular in China during 2010, is the use of microblogging services to release information anonymously in small chunks, notes Ying Chan, dean of the journalism school at Shantou University in China. Twitter is banned in China, so this is done using local clones of the service. Microblogging works well in China because it can be done on mobile phones, which are widespread, and Chinese characters allow an entire paragraph to be packed into a short message. Moreover, microblog posts are difficult to censor because they may not make sense unless they are all read in order.

Ms Chan describes the future for Chinese journalists as "both promising and perilous". Journalists elsewhere would agree, though for different reasons. Like Tolstoy's unhappy families, all unhappy in their own way, the news business faces different problems in different countries. To survive, news organisations will have to make the internet part of the solution.

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A special report on the news industry: Making news pay

Reinventing the newspaper



Viktor Koen

ON THE MORNING of September 3rd 1833 a new kind of newspaper went on sale on the streets of New York. With its mix of crime reports and human-interest stories, the *Sun* was intended to appeal to a mass audience, and its publisher, Benjamin Day, made it cheap: at one penny, it was one-sixth of the price of most other papers. The most popular newspaper in America at the time, according to Mitchell Stephens, author of "A History of News", was New York's *Courier and Enquirer,* which sold 4,500 copies a day. Day's new "penny paper" appealed to people who had not bought newspapers before. Within two years the *Sun* was selling 15,000 copies a day.

In hindsight this was a turning point because it introduced a new business model to the industry. The *Sun's* large circulation attracted advertisers, and the resulting revenue enabled Day to keep the price of the newspaper down and its circulation up. Instead of relying mostly on selling copies, newspapers came to depend mostly on advertising. It was a great deal for all concerned: readers got their news cheap, advertisers could reach a large audience easily and newspapers could afford to employ professional reporters instead of relying on amateurs.

This model worked well for a long time. But it has come unstuck in the internet era as readers have shifted their attention to other media, quickly followed by advertisers. "The audience is bigger than ever, if you include all platforms," says Larry Kilman of the World Association of Newspapers. "It's not an audience problem-it's a revenue problem." News providers throughout the rich world are urgently casting around for new models. They are starting to charge for content on the web and mobile devices, as well as pursuing non-traditional sources of revenue such as wine clubs or dating services. Some are being supported by philanthropy. Nobody yet knows which, if any, of these models will work, but it is clear that revenue from online advertising alone will not be enough to cover the costs of running a traditional news organisation. Government funding is also off the table as rich countries struggle to reduce their debts. In America any talk of government support for the country's ailing newspapers ended when the Republicans retook control of the House in 2010. Subsidies would anyway merely postpone the inevitable.

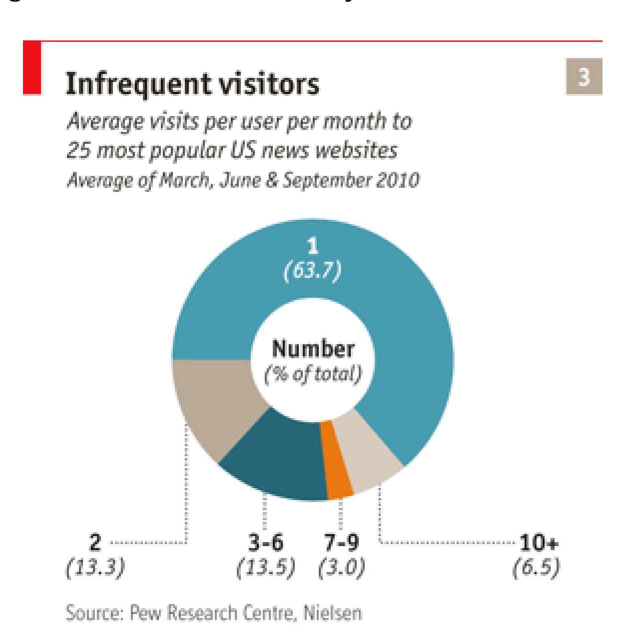
Constant upheaval is part and parcel of capitalism's creative destruction, but those in the business argue that news is a special case. It may be a business, but it also plays an important part in a democracy: holding those in power to account, giving voters the information they need to make choices and making markets more efficient. To be sure, not all journalism has a civic function, and the media's ability to expose wrongdoing is easily overstated. "People want you to think that newspapering is 'everyone is working on the next Watergate'," says Clay Shirky, a media guru at New York University. Most of the time it is not. But such "accountability journalism" has always been subsidised by other activities. So finding a new model to support journalism is in the interest of society as a whole.

One answer is to erect paywalls. Having long made content available free online, news providers are starting to restrict access to some or all of it to paying subscribers. The *Times* and *Sunday Times* of London, owned by Rupert Murdoch's News Corporation, put up a paywall around their websites in July 2010. Other papers have since followed, including the *Dallas Morning News* and, most prominently, the *New York Times*.

A decade ago the idea of a paywall appeared to have been widely discredited. Only specialist providers of business news such as the *Wall Street Journal* and the *Financial Times* seemed able to get people (or, more usually, people's employers) to pay for news online. Most readers were unwilling to pay for general news, and after experimenting for a while many news sites made some or all of their content available without restriction to attract as many visitors and advertisers as possible.

The trouble is that online advertising typically brings in less than 20% of a newspaper's advertising revenue, and rates on all but the most prominent pages are falling. There are billions of pages on the internet, so the value of an individual page is lower than that of a printed page. And now that advertisers can measure the effectiveness of advertisements, they may have realised they were paying too much. Optimists (such as executives at Google, which dominates online advertising) insist that internet advertising will become more valuable as it becomes more targeted, which will drive up prices. Revenue from online advertising is growing, but not fast enough to fill the gap opened up by the decline in revenue from print advertising and circulation. Gregor Waller, a former head of strategy at Axel Springer, a big European newspaper publisher, estimates that by 2020 newspaper circulation will have fallen by 50%, classified advertising revenue by 90% and display advertising revenue by 30%.

Hence the paywalls, which come in many forms. They can be watertight, like that at the London *Times*, but increasingly they are porous, letting publishers charge for access to content while also admitting casual visitors and allowing sharing. The *Wall Street Journal*, for example, puts much of its business and finance coverage behind a paywall but allows unrestricted access to other, less specialist stories. Another option is the "metered paywall", pioneered by the *Financial Times*, which lets visitors to its site read ten stories a month before asking them to pay. (The *Financial Times* is owned by Pearson, which also owns half of *The Economist*.) At the *New York Times*, which has the world's most popular newspaper website, visitors can read 20 stories a month before being invited to subscribe. Metered paywalls are also being tested at the *Berliner Morgenpost* and *Hamburger Abendblatt* in Germany.



The beauty of the metered paywall model (which *The Economist* has adopted) is that frequent users can be asked to pay for access without putting off a lot of more casual users who attract advertisers. Most news sites have a small core audience of frequent visitors and a much larger group of readers who visit only occasionally (see chart 3). Some frequent users will jib at a paywall, but some will fork out. "Other newspapers are watching us and hoping that it works," says Martin Nisenholtz, head of digital operations at the *New York Times*. Since it put up its paywall, visits to the paper's site have dropped by about 10% and page views by about 20%. But more people than expected are signing up.

Another new source of digital revenue is charging for content on mobile devices such as smartphones and tablet computers, but this market is still in its infancy. Of the 17m tablet computers sold in 2010, says Mr Kilman, 15m were Apple iPads-"and half of them were bought by people in the media industry." Smartphones are far more widespread and represent a greater opportunity in the near term, says Mr Nisenholtz. According to Gartner, a market-research firm, 101m smartphones were sold in the first three months of 2011 alone. Strong sales of smartphone "apps", or software, suggest

that readers are prepared to pay for content on mobile devices. But the market seems unlikely to produce substantial revenue quickly enough to replace declining print income.

Access all areas

Existing readers of newspapers and magazines are generally unwilling to pay for news online or on mobile devices if it costs them extra. But many publications are adopting an "all access" model that grants print subscribers free access to digital editions as well. When the *Dallas Morning News* launched its paywall in March, for example, it also gave print subscribers unfettered access to the paper's website, iPhone and iPad editions, thus turning them into digital subscribers at a stroke. That lets people read the paper in whatever format they find most convenient at different times, and with luck will subtly change their perception of what they are paying $33.95 a month for: not just a printed newspaper seven days a week, but access to the news in a range of formats. As readers make greater use of the digital editions, says Ken Doctor, a news-industry analyst at Outsell, the hope is that they will mentally ascribe more value to those formats and less to print. By the time they are ready to give up the print edition, they should have got used to the idea of paying for digital.

Bundling digital access with print subscriptions, Mr Doctor adds, not only offers readers choice but also gives them an added reason to go on buying print editions, which still pull in the lion's share of advertising revenue. Moreover, papers may be able to publish less frequently in print and yet retain most of their print advertising. When Detroit's papers switched to publishing three or four days a week to cut costs during the recession (while publishing continuously online), they retained 93% of their print-ad revenue. A typical metro-area newspaper gets about 35% of its weekly print-ad revenue from the Sunday edition, says Mr Doctor. So newspapers might in time move to Sunday-only printing and publish digitally during the week.

A variety of other models are also being tried. In Slovakia, for example, several newspapers and magazines have just started using a shared-payment scheme that operates at a national level. Paying euro2.90 ($4.10) on any of the participating sites unlocks premium content and features across all the sites for a month. The scheme has proved more popular than expected. Tomas Bella of Piano, the company operating the scheme, says this suggests that readers will pay for content, "but only when it is convenient enough". Piano's model could work in 10-15 other European markets where language barriers protect content providers from direct foreign competition, Mr Bella thinks.

By contrast, two British newspapers, the *Guardian* and the *Daily Mail*, have made all their content available free online in an effort to transform themselves into global news brands. The *Mail*'s website recently overtook the *Huffington Post* to become the world's second most popular newspaper site, according to comScore, an internet-ratings firm, and the *Guardian* is at number five. Both papers are adding staff in America to beef up their coverage and tap into a much bigger online-advertising market. The *Guardian*, whose parent company lost an estimated pound33m ($51m) in the year to March, hopes to double its digital revenues to pound91m by 2013. But it is still unclear whether online advertising can fill the gap left by declining print revenues, says Alan Rusbridger, the *Guardian*'s editor. The all-access metered-paywall model favoured by American newspapers is problematic in Britain. Most sales are through independent retailers rather than subscriptions, so papers do not know who their readers are.

Mr Shirky doubts that most newspapers can get people to pay up online. "Paywalls have been presented as a castle keep, inside which the existing model doesn't have to change," he says. "It's about defending the old model." Likewise, Juan SeÃ±or of Innovation Media Consulting, a firm that advises newspapers around the world, reckons that "you won't fix the business model without fixing the editorial model." He believes that as well as looking for new forms of revenue on the web, newspapers should overhaul their print editions to make themselves more relevant and thus boost circulation. His firm advises them to undertake a radical redesign, abandoning traditional sections and instead arranging the newspaper around themes that correspond to the way readers think, with a magazine-like emphasis on analysis and storytelling.

Correio da Bahia, a Brazilian paper that underwent this treatment, has been reorganised into four sections, offering a news summary, "More", "Life" and "Sport". Similarly, *Liberation*, a French newspaper, stopped trying to provide comprehensive coverage of sport, leaving that to specialist sports papers, sales of which are booming in many European countries. After the redesign the circulations of both newspapers increased. But so far American newspapers have shown no interest in trying anything like this, says Mr SeÃ±or.

Newspapers can also use their trusted brands to generate new forms of revenue. Many quality newspapers, including the *New York Times* and Britain's *Daily Telegraph*, have launched wine clubs, for example. Canada's *Globe and Mail* offers branded cruises, as do several German newspapers; journalists appear as guest speakers on board. *Marca*, a Spanish sports newspaper, lets readers buy Nike football boots before they go on general sale, says Mr SeÃ±or. *Aftonbladet*, a Swedish tabloid, runs a hugely popular weight-loss club, a model it has licensed to several other European newspapers, including Germany's *Die Zeit*. Newspaper groups also operate online bookstores, host conferences and reader events, and provide education services.

The rise of philanthrojournalism

Another tack, now being tried across America, is to build new, internet-native metropolitan news organisations supported by philanthropy. Examples include the *Voice of San Diego*, the *St Louis Beacon*, the *MinnPost* in Minneapolis, the *Texas Tribune* in Austin and the *Bay Citizen* in San Francisco. "Where they exist, they are doing a very good job, in some cases exceeding the quality of dailies," says Mr Doctor. Because traditional newspapers are in trouble, these not-for-profit online news organisations can take their pick of experienced journalists, many of whom are also attracted by the new sites' focus on politics, civic engagement and accountability journalism. "We believe the gap that we're trying to fill has to do with reporting," says Jonathan Weber, editor of the *Bay Citizen*. "There's a lot of opinion out there, and a dearth of reporting."

The *Bay Citizen*'s business plan is based on four sources of revenue: large gifts and grants, donations from readers under a membership plan, syndication of content to other news organisations and corporate sponsorship of particular features on the website. The big question is whether the not-for-profit news model is sustainable. Arianna Huffington, whose *Huffington Post* co-operates with philanthropically funded news organisations, says a change in mindset is needed among donors. "I think we need to get into the habit of endowing not-for-profit journalistic enterprises, both at the national level and at the local level, the way people endow chairs at universities," she explains.

What is clear is that starting with a clean sheet-using the latest digital tools, being free of printing presses, not depending on print advertising-gives not-for-profit news organisations an optimistic sense of being part of something new rather than of an industry in trouble. "I have always been of the view that it's a crisis for the traditional institutions, but that's different from there being a crisis for the profession," says Mr Weber. "In a lot of ways it's a time of a lot of opportunity in journalism."

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A special report on the news industry: Social media

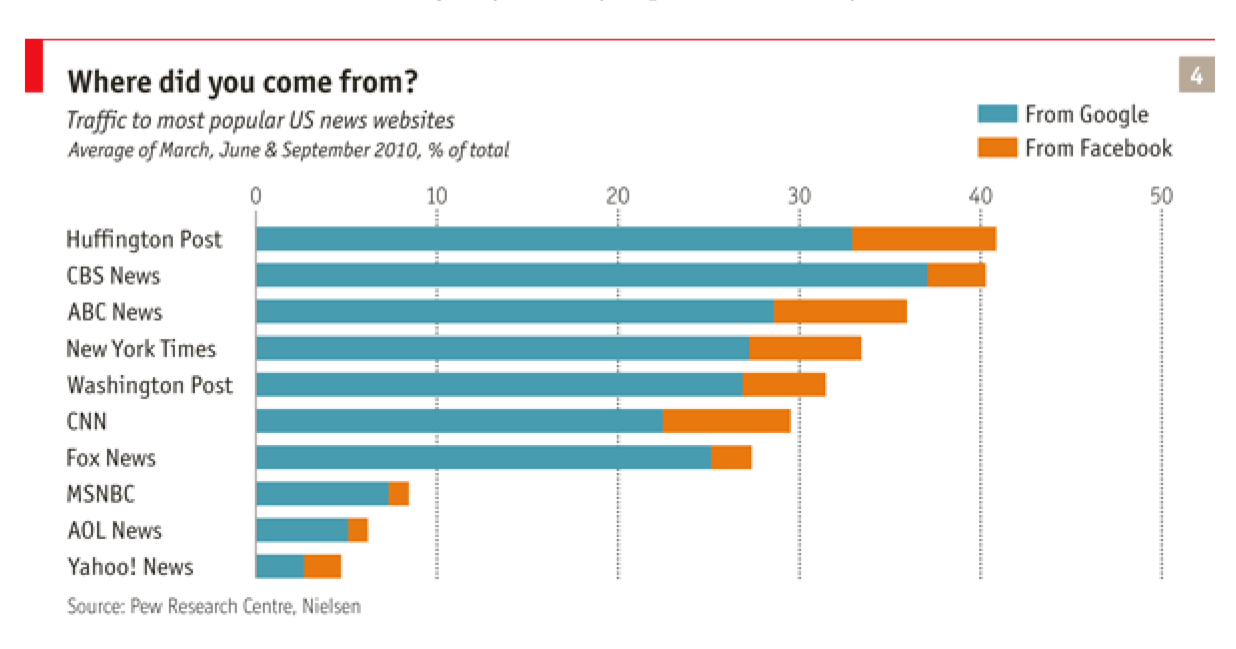
The people formerly known as the audience



THE ANNOUNCEMENT THAT Barack Obama would shortly appear on television came late in the evening on May 1st. "POTUS to address the nation tonight at 10.30pm eastern time," tweeted Dan Pfeiffer, communications director at the White House. This caused an explosion of speculation on Twitter. Had Muammar Qaddafi been killed in an air strike? Had Osama bin Laden been tracked down at last? At first these two theories had roughly equal support, measured by the volume of tweets. But then Keith Urbahn, chief of staff for Donald Rumsfeld, a former defence secretary, had a call from a well-connected television news producer who wanted to interview Mr Rumsfeld about the killing of bin Laden. Mr Urbahn tweeted: "So I'm told by a reputable person they have killed Osama bin Laden. Hot damn."

His message quickly rippled across Twitter. Television news channels began to report the story, which was confirmed by Mr Obama an hour later. It subsequently turned out that Sohaib Athar, a computer consultant living in Abbottabad, the Pakistani village where bin Laden had been hiding, had unwittingly described the operation as it happened in a series of tweets ("A huge window-shaking bang here in Abbottabad...I hope it's not the start of something nasty").

The next day a picture that purported to show bin Laden's bloodied face began to circulate online, but on Twitter it was swiftly exposed as a fake. A week later a statement on an obscure website attributed to bin Laden's son Omar, calling his father's killing "criminal" and his burial at sea demeaning, was reported around the world after a link to it was tweeted by Leah Farrall, a counter-terrorism analyst. All this shows how social media are changing journalism, says Mark Jones, global communities editor at Reuters, a news agency: "Every aspect of that story was on Twitter."



Surveys in Britain and America suggest that 7-9% of the population use Twitter, compared with almost 50% for Facebook. But Twitter users are the "influencers", says Nic Newman, former head of future media at the BBC and now a visiting fellow at the Reuters Institute at Oxford University. "The audience isn't on Twitter, but the news is on Twitter," says Mr Jones.

Thanks to the rise of social media, news is no longer gathered exclusively by reporters and turned into a story but emerges from an ecosystem in which journalists, sources, readers and viewers exchange information. The change began around 1999, when blogging tools first became widely available, says Jay Rosen, professor of journalism at New York University. The result was "the shift of the tools of production to the people formerly known as the audience," he says. This was followed by a further shift: the rise of "horizontal media" that made it quick and easy for anyone to share links (via Facebook or Twitter, for example) with large numbers of people without the involvement of a traditional media organisation. In other words, people can collectively act as a broadcast network.

At first many news organisations were openly hostile towards these new tools. In America the high point of the antagonism between bloggers and the mainstream media was in late 2004, when "60 Minutes", an evening news show on CBS, alleged on the basis of leaked memos that George Bush junior had used family connections to win favourable treatment in the Air National Guard in the 1970s. Bloggers immediately questioned the authenticity of the memos. A former CBS News executive derided blogging as "a guy sitting in his living room in his pyjamas writing what he thinks". But the bloggers were right. CBS retracted the story and Dan Rather, one of the most respected names in American news, resigned as the show's anchor in early 2005.

But in the past few years mainstream media organisations have changed their attitude. The success of the *Huffington Post*, which launched in May 2005 with a combination of original reporting by members of staff, blog posts from volunteers (including many celebrity friends of Arianna Huffington's, the site's co-founder) and links to news stories on other sites, showed the appeal of what Ms Huffington calls a "hybrid" approach that melds old and new, professional and amateur. Newspapers and news channels have since launched blogs of their own, hired many bloggers and allowed readers to leave comments, as on blogs. They also invite pictures, video and other contributions from readers and seek out material published on the internet, thus incorporating non-journalists into the news system.

Journalists are becoming more inclined to see blogs, Facebook, Twitter and other forms of social media as a valuable adjunct to traditional media (and sometimes a corrective to them). "We see these things as being highly complementary to what we do," says Martin Nisenholtz of the *New York Times*. Many journalists who were dismissive about social media have changed their tune in the past few months as their value became apparent in the coverage of the Arab uprisings and the Japanese earthquake, says Liz Heron, social-media editor at the *New York Times*.

The view from the street

When a young Tunisian, Mohammed Bouazizi, set himself on fire on December 17th to protest against the police confiscating his fruitstall and the lack of jobs for young people, his action prompted demonstrations by other youths in the town of Sidi Bouzid. A video of one protest, led by Mr Bouazizi's mother, was posted on Facebook, where it was seen by the new-media team at Al Jazeera, a satellite news broadcaster founded in 1996 and based in Qatar that has become the Arab world's most influential media outlet. Al Jazeera showed the video on air, and by the time Bouazizi died of his burns on January 4th protests had broken out across Tunisia and spread across the Arab world.

Marc Lynch, an expert on Middle Eastern media at George Washington University, says social media and satellite television worked together to draw attention to the Arab spring. Social media spread images of protesters in Tunisia that might otherwise have been suppressed by the regime, he wrote on his blog at *Foreign Policy*. "But it was the airing of these videos on Al Jazeera...which brought those images to the mass Arab public and even to many Tunisians who might otherwise not have realised what was happening."

The staff in Al Jazeera's Arabic and English newsrooms had, as it happened, undergone intense social-media training only the month before. "It was just in time," says Moeed Ahmad, the network's head of new media. Although Al Jazeera had used material from the internet in its coverage before, in Tunisia there was no other choice, because it had no reporters on the ground. With its journalists freshly trained in the use of such material, theory was quickly put into practice.

The training was the culmination of a two-year initiative to make better use of social media throughout Al Jazeera, prompted by the realisation during the three-week Gaza war of 2008-09 that the channel's audience was swiftly moving online. This meant convincing journalists that social media are not a threat, but "the biggest assets you can have". Instead of flying a reporter somewhere to cover a story, Al Jazeera can draw upon networks of trusted volunteers whose credibility has been established. It also has a website, called Sharek, where photos and videos can be submitted for use (once verified) in Al Jazeera's television and online reports.

Other news organisations are working along similar lines. Sharek, launched in 2008, seems to have been inspired by CNN's iReport website. Over 750,000 people have volunteered as iReporters, and reports have been submitted from every country on earth. CNN's coverage of the Japanese earthquake in March, which drew heavily on iReport material, won it its best ratings in more than five years. "Because it happened so suddenly and in such a remote area, having the extra iReport material was enormously helpful," says Mark Whitaker, managing editor of CNN. "I just see it growing." But it is always vetted before being used on air, he adds.

Verifying material to ensure it is suitable for broadcasting can be an elaborate process, says Mohamed Yehia of BBC Arabic. Journalists examine photographs and video footage for recognisable landmarks, street signs, vehicles or weapons to determine whether images really come from a particular city or region. Sound can help. Shadows can indicate the time of day. Comparing weather reports with date stamps can reveal whether a video or photograph really was taken on a particular date. Even when verified, such material will not be used if it identifies people and puts them in danger, Mr Yehia adds.

Checking snippets of information posted on Twitter is more difficult. Tweets can be a useful way to gauge the public mood about an issue and are now often incorporated into news coverage as digital "vox pops". Many journalists use Twitter to solicit leads, find sources or ask for information. But Twitter is a public forum where anyone can say anything. Neal Mann, a producer who works for Sky News, a British satellite-news channel controlled by News Corporation, says he thinks it is a journalist's duty to provide reliable information, on Twitter as elsewhere. He works with a network of trusted contacts around the world whose tweets he passes on to his followers. By contrast, Andy Carvin, a social-media strategist at NPR who has become known for this monitoring of Twitter during the Arab spring, does not attempt to check the accuracy of every tweet before publishing it. Instead, he asks his followers to help assess the trustworthiness of individual tweets.

Either way, there is clearly a role for people-including journalists, but not limited to them-to select, filter and analyse the torrent of information being posted on the internet. "There still is an editorial function that needs to happen-there still needs to be someone who really makes sense of it all," says Jack Dorsey, co-founder of Twitter. This process is known in social-media jargon as "curation", and a growing number of tools is available to do the job. Storify, for example, is a website that lets users arrange items of social media (including tweets, Facebook posts, videos from YouTube and photos from Flickr) into chronological narratives. The resulting narrative can then be embedded into pages on other sites. Keepstream and Storyful work in a similar way. All this raises the question whether some stories may be better covered by constantly updated streams of tweets than by traditional articles. By providing more raw material than ever from which to distil the news, in short, social media have both done away with editors and shown up the need for them. News organisations are already abandoning attempts to be first to break news, focusing instead on being the best at verifying and curating it, says Mr Newman. But like other aspects of journalism, this role is now open to anyone.

As well as getting involved (if they choose) in newsgathering, verification and curation of news, readers and viewers have also become part of the news-distribution system as they share and recommend items of interest via e-mail and social networks. "If searching for news was the most important development of the past decade, sharing news may be among the most important of the next," noted a recent study of online news consumption in America by the Pew Research Centre's Project for Excellence in Journalism. Typically around 20-30% of visitors to the websites of big news organisations come from Google's search engine or its news site, Google News.

The proportion of visitors referred from Facebook is smaller, but growing quickly as social-sharing features become more commonplace and easier to use. With a single click of a Facebook "Like" button, for example, you can recommend a story, video or slideshow to your entire network of friends. Some news sites present visitors with a list of stories recommended by their friends because they reckon an endorsement from someone you know carries extra weight. "This year you'll see more and more news sites where referrals from social networks exceed those from search engines," says Joshua Benton of

the Nieman Journalism Lab. "Facebook is beginning to join Google as one of the most influential players in driving news audiences," observes the Pew study, as social sharing steers readers to the stories that are most popular among their social circle.



Letting your network of friends guide you to stuff you might find interesting makes a lot of sense, says Nick Denton, founder of Gawker Media, a network of popular blogs. Friends are a good proxy for one's tastes, he says, and social recommendation is far more efficient than maintaining lists of keywords relating to topics of interest. Better still, "you get the serendipity that people said was going to be lost with personalised news." At the same time, says Bret Taylor, chief technology officer at Facebook, social recommendations are "recreating the watercooler" by increasing the odds that, in a fragmented media landscape, friends and family members will have seen the same things.

Flipboard, an app that runs on the iPad, goes a stage further. It can compile an entire personalised magazine, with flippable pages, in which the articles are items recommended by the user's contacts on Facebook and Twitter. Other news apps and websites, including News.me, Zite and Trove, do similar things. John-Paul Schmetz, a veteran of the German media industry and the co-founder of Cliqz, another social-recommendation start-up, says such services are needed because the explosion of content online in the past decade means "you spend a lot of time filtering, and you don't spend much time reading."

Rather than relying solely on human editors or mindless algorithms to find the best content, he says, it makes sense to use a hybrid approach, analysing contacts and behaviour on social networks to find items of interest. Mr Denton, however, is worried that the shift towards social filtering of news is making news organisations too dependent on Facebook. "It's eating their lunch," he says. Facebook's Mr Taylor insists that there is no conflict because his firm does not produce content but merely provides "valuable distribution" for it.

The feeling is mutual

Clearly readers and viewers are getting steadily more involved in gathering, filtering and distributing news. The *Guardian's* Alan Rusbridger calls this process the "mutualisation" of news. "If you are open to contributions from others, you generally end up with richer, better, more diverse and expert content than if you try to do it alone," he says. Involving thousands of readers through "crowdsourcing" also lets news outlets do things that would otherwise be impractical, such as searching through troves of documents looking for interesting material.

Rather than thinking of themselves as setting the agenda and managing the conversation, news organisations need to recognise that journalism is now just part of a conversation that is going on anyway, argues Jeff Jarvis, a media guru at the City University of New York. The role of journalists in this new world is to add value to the conversation by providing reporting, context, analysis, verification and debunking, and by making available tools and platforms that allow people to participate. All this requires journalists to admit that they do not have a monopoly on wisdom. "Ten years ago that was a

terribly threatening idea, and it still is to some people," says Mr Rusbridger. "But in the real world the aggregate of what people know is going to be, in most cases, more than we know inside the building."

A Pew Research Centre survey published in March 2010 found that 37% of American internet users, or 29% of the population, had "contributed to the creation of news, commented about it or disseminated it via postings on social-media sites like Facebook or Twitter". The figure is probably much higher today, because the Pew survey predates the introduction in April 2010 of the Facebook "Like" button, which makes sharing a news story (or anything else) as simple as clicking a mouse. Only a small proportion of these people provide content as well as commenting and sharing. But, as Mr Rosen points out, even if just 1% of the audience is now involved in the news system, that's millions of new people. "It isn't true that everyone is a journalist," he says. "But a lot more people are involved."

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A special report on the news industry: WikiLeaks and other newcomers

Julian Assange and the new wave



THE BEATEN-UP RED car crunched up the driveway and came to a halt outside an English manor house. A tall, strangely hunched woman emerged into the November night and hurried indoors. In fact it was Julian Assange, the boss of WikiLeaks, who had donned a wig to disguise himself as an old woman as he travelled from London to a safe house in Norfolk. That may have been a tad dramatic, but there can be no doubt about Mr Assange's prominence among a group of unconventional new actors in the news business that have emerged lately.

These are non-profit organisations that are involved in various forms of investigative journalism. As funding for such reporting by traditional media has been cut, they are filling the gap using new methods based on digital technology. Some of them make government information available in order to promote openness, transparency and citizen engagement; some gather and publish information on human-rights abuses; and some specialise in traditional investigative journalism and are funded by philanthropy.

And then there is WikiLeaks. Launched in late 2006, it was intended to be "an uncensorable Wikipedia for untraceable mass document leaking and analysis", with the aim of "exposing oppressive regimes in Asia, the former Soviet block, sub-Saharan Africa and the Middle East". Inspirations included Wikipedia, the web encyclopedia written by volunteers, and the leak of the Pentagon Papers by Daniel Ellsberg to the *New York Times* during the Vietnam war, which ultimately led to a Supreme Court ruling that "only a free and unrestrained press can effectively expose deception in government."

WikiLeaks welcomes documents from whistle-blowers and provides anonymous drop boxes. It is funded by donations and staffed by volunteers.

In its first three years WikiLeaks published leaked material on a range of subjects, including corruption in Kenya, the church of Scientology, Sarah Palin's e-mails, the membership of a British nationalist party and a Peruvian oil scandal. But in 2010 it abandoned the wiki-style approach and adopted a new, editorialising tone. In July that year it worked with three mainstream news organisations-the *New York Times*, *DerSpiegel* and the *Guardian*-to publish a cache of 75,000 documents relating to the war in Afghanistan. Speaking to *The Economist* at the time, Mr Assange explained that such partnerships gave it more impact than if it simply posted leaked material online and expected people to seek it out. "We see actually that the professional press has a nose for what a story will be-the general public becomes involved once there is a story, and then can come forward and help mine the material."

A further cache of nearly 400,000 documents, relating to the Iraq war, was released in October, and in November five newspapers began to publish highlights from over 250,000 diplomatic cables sent by American embassies around the world. But by this time the relationship between WikiLeaks and its media partners was breaking down, and WikiLeaks itself was in turmoil. Mr Assange was fighting an extradition request in the British courts from Swedish prosecutors who want to question him about two alleged sexual assaults, and his increasingly imperious behaviour prompted the departure of several of his key associates. Ironically, WikiLeaks itself sprang a leak and some of its material was passed to its estranged media partners, which no longer felt they had to co-ordinate publication with Mr Assange.

Despite WikiLeaks' difficulties, its approach is being adopted by others. Al Jazeera has set up a "transparency unit" with a WikiLeaks-style anonymous drop box. The *Wall Street Journal* launched a drop box of its own in May, but was criticised for not offering enough protection to leakers. "Everyone's looking at the idea," says the *Guardian*'s Alan Rusbridger, "but if you're going to do it you have to make it really secure."

Conspiracy theory

What happens next depends in part on the fate of Mr Assange and of Bradley Manning, an American soldier who has been charged with passing confidential information to WikiLeaks. If American prosecutors can show that Mr Assange encouraged Mr Manning to leak the material, they may try to charge WikiLeaks' boss with conspiracy. That would be worrying for news organisations in general, because it would strike at the idea that journalists should be able to develop relationships with confidential sources without fear of prosecution.

WikiLeaks seems to be hoping that by calling itself a news organisation it will be protected by the First Amendment. The "about" page on the WikiLeaks website, which used to describe the organisation as "an excellent source for journalists", has been rewritten to describe its activities as journalism, its staff as journalists and Mr Assange as its editor-in-chief. There has been much debate about whether Mr Assange should be regarded as a journalist; Mr Rusbridger calls him "a new breed of publisher-intermediary". Jay Rosen of New York University says such arguments show that in the digital age "the very boundaries around journalism are collapsing." WikiLeaks is not the only example.

The Sunlight Foundation, based in Washington, DC, also campaigns for government openness and transparency, but in a different way from WikiLeaks. Its aim is to make government data more easily accessible, both to journalists and to ordinary citizens. Its Transparency Data website, for example, is a database of federal and state campaign contributions, federal grants and contracts, and lobbying disclosures going back 20 years; Party Time keeps track of the political party circuit; Checking Influence is a database of campaign contributions and lobbying activity by companies. All this provides raw material for journalists, but the compilation and presentation of these data sometimes shades into journalism.



Ellen Miller, the organisation's co-founder, cites the example of Sunlight Live, which combines a live video stream of government proceedings on a web page with information from Sunlight's databases to provide context. "As different people speak, we talk about their backgrounds, whether they have campaign contributions, whether they are involved in lobbying," says Ms Miller. "That's clearly journalism." Sunlight Live won an award for innovation in journalism last year, and its technology will be made available to other organisations. Sunlight also takes pictures of people attending public hearings so that it can identify lobbyists. That is journalism too, says Ms Miller: "We want to use the tools of journalism to open up government."

The line between activism and journalism has always been somewhat fuzzy, but has become even fuzzier in the digital age. The Sunlight Foundation has been closely involved in the campaign to get the American government to provide more information about its workings, which led to the data.gov site being set up in 2009 (though its funding is now under threat). There have been similar initiatives in Britain, Australia and New Zealand, and several American cities and states have made information available about anything from procurement contracts to traffic accidents. Websites have sprung up that present such data in a user-friendly form, such as mySociety.org's TheyWorkForYou, which provides information on British politicians and is starting to add brief summaries of their activities. Is that journalism? No, says Myf Nixon, a spokesman for mySociety, because the website merely aggregates facts that are available elsewhere. But the same could be said of the Sunlight Foundation.

In the developing world, transparency campaigners are pushing for greater openness about aid flows and the governance of natural resources, and campaign groups are often the most credible sources of information about human-rights abuses. In the past, bringing such information to wider attention meant working with news organisations and getting them to publish the information. Yet thanks to the web, non-governmental organisations (NGOs) can now also publish material independently. "The same internet that has blown a gaping hole in media budgets is also allowing NGOs to reach their audiences directly," observed Carroll Bogert of Human Rights Watch (HRW), a global campaigning group, in a report published in January. But that requires NGOs to change the way they operate.

This is beginning to happen. HRW now sends photographers and radio producers to work alongside its researchers in the field. Amnesty International is creating a "news unit" staffed by five journalists, and Medecins Sans Frontieres produces photographs and video of its work. "We are beginning to realise that there's a far wider range of people who are qualified, have the integrity and are competent to be part of the reporting picture-and NGOs are part of that picture," says Sameer Padania, who advises human-rights groups on the use of technology. But no matter how painstaking the reporting, it has been produced to serve a particular agenda. So being able to verify the accuracy and provenance of material is vital, he says.

Dan Gillmor, a veteran journalist who is now a professor at Arizona State University's Walter Cronkite School of Journalism, observes that some of the best reporting on conditions at Guantanamo Bay was done by the American Civil Liberties Union, and that HRW produced an excellent report on the abuse of domestic workers in Saudi Arabia. But he says reporting by advocacy groups often falls just short of journalism. Such groups may not give sufficient weight to

opposing views or fully reflect nuances in the subject. In the end, says Mr Gillmor, what matters is not whether or not particular people qualify as journalists but whether the work they produce is thorough, accurate, fair and transparent enough to qualify as journalism.

Making up for a market failure

There is also growing interest in investigative news organisations that operate on a non-profit model, particularly in America. The Centre for Investigative Reporting (CIR), based in Berkeley, California, was founded in 1977 and describes itself as "the nation's oldest non-profit investigative news organisation". Since 2008 it has expanded and reinvented itself as a multimedia news producer under the leadership of Robert Rosenthal, a former editor of the *Philadelphia Inquirer*. The Centre for Public Integrity was founded in 1989. A more recent entrant to the field is ProPublica, launched in 2008 under the leadership of Paul Steiger, a former managing editor of the *Wall Street Journal*.

All three organisations produce stories that are syndicated to newspapers, television and radio stations and websites across America. Non-profit news outfits have been popping up at the state and city levels, too. They are needed because there has been a market failure in the creation of some kinds of content, including investigative reporting, says Dick Tofel, general manager of ProPublica. His organisation's aim is to help fill that gap. ProPublica has already won two Pulitzer prizes for its work, including investigations into the financial crisis and the provision of health care in the aftermath of Hurricane Katrina (with the *New York Times* magazine). But although these three organisations are well funded for the next few years, the long-term viability of philanthropic funding is still uncertain.

All these organisations work across a range of different media, producing versions of the same story for different outlets, which has led to some innovative work. ProPublica collaborated with journalism students to produce a music video called "The Fracking Song", part of an investigation into the impact of shale-gas extraction. The CIR exposed failings in the enforcement of earthquake-safety laws in California's schools in a project entitled "On Shaky Ground" which resulted in a series of articles, audio and video, as well as interactive maps and databases-and a colouring book in five languages to help educate children about earthquake safety. "I ran a newspaper with 630 people and a $75m budget and we never would have dreamt of doing this," says Mr Rosenthal. The project also shades into activism, providing contact details for local officials. "You can point people to information, guide people to take action," Mr Rosenthal adds. "Getting people to come together around problems is something the media can do more and more."

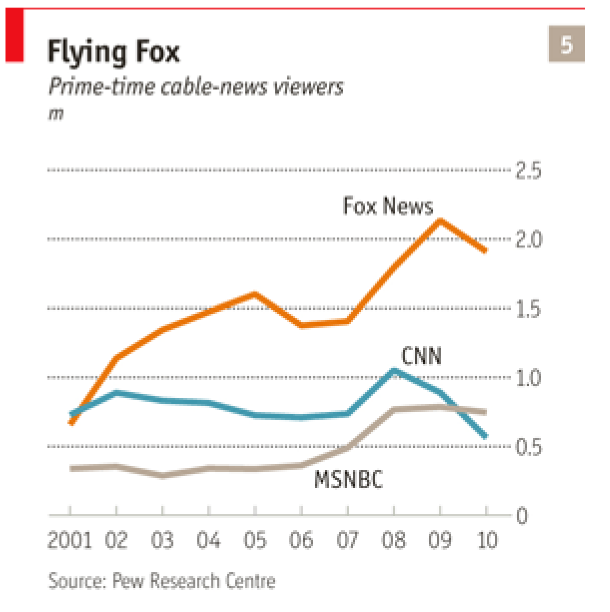
The discussion about where lines should be drawn between non-profit journalism and journalism by non-profits is still evolving. But it is clear that non-profit groups of various kinds are beginning to fill some of the gap left behind as traditional news outfits shrink.

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A special report on the news industry: Impartiality

The Foxification of news

ONE OF THE world's most profitable news organisations is Fox News, an American cable-news channel that is part of Rupert Murdoch's News Corporation. In 2010 it is thought to have made a profit of over $800m on revenues of $1.5 billion, according to SNL Kagan, a research firm-more than its rivals CNN and MSNBC put together. Fox was set up in 1996 by Roger Ailes, a former media adviser to three Republican presidents, specifically to appeal to conservative viewers. Its star hosts, such as Bill O'Reilly and Sean Hannity, offer distinctively right-wing opinion and commentary, though the channel insists that its news reporting is unbiased. Fox is famous for being opinionated rather than for being profitable. Bill Shine, head of programming at Fox News, thinks these two characteristics are related. "We offer opinions not seen anywhere else," he says.



In a world where millions of new sources are emerging on the internet, consumers are overwhelmed with information and want to be told what it all means. Fox is not the only news organisation that is unafraid to say what it thinks and is prospering as a result. Other examples include Al Jazeera's unabashed support for reform in the Arab world, Jon Stewart's satirical take on the news in the "Daily Show", Rush Limbaugh's hugely popular conservative radio show or even *The Economist*. Perhaps significantly, MSNBC, which has lately been positioning itself to appeal to a left-wing crowd, is picking up viewers (see chart 5). "It's not quite as political as what Fox does," says Phil Griffin, the president of MSNBC, "but we definitely have a progressive sensibility, a sensibility to the left."

CNN, meanwhile, continues to lose out to its more strident rivals, in prime time at least. Mr Griffin, himself a former CNN employee, reckons that the channel has failed to move with the times by favouring the "disinterested, at-arm's-length anchor". Mark Whitaker, CNN's managing editor, disagrees. He says his (highly profitable) channel is known for "integrity and avoiding cheap opinion", and for providing more global coverage than its rivals. "In this day and age you should have a point of view, but not necessarily one that's rooted in knee-jerk ideology," he says.



The idea that journalists should be impartial in reporting news is a relatively recent one. "A lot of newspaper people treat it as one true religion, when it's an artefact of a certain set of economic and historical circumstances," says Joshua Benton of the Nieman Journalism Lab. America's Founding Fathers nurtured a vibrant, fiercely partisan press with no licensing of newspapers or policing of content. During the 19th century newspapers gradually adopted a more objective stance, for several reasons. By appealing to a wider audience, they were able to increase their circulation and hence their advertising revenue. Consolidation, and the emergence of local newspaper monopolies, also promoted impartiality. "When you are the only paper in town, you can't risk pissing off liberals by being too conservative, or vice versa," says Mr Benton.

With the professionalisation of journalism in the early 20th century came a more detached style of reporting. In effect, a deal was struck between advertisers, publishers and journalists, says New York University's Jay Rosen. Journalists agreed not to alienate anyone so that advertisers could aim their messages at everyone. That way the publishers got a broader market and the journalists got steady jobs but gave up their voices. Objectivity is "a grand bargain between all the different players", says Mr Rosen. When radio and television emerged, America's private broadcasters embraced impartiality in their news reporting to maximise their appeal to audiences and advertisers and avoid trouble with regulators.

These days different countries have different preferences. In Europe overt partisanship in newspapers is widespread and state-run television channels often have partisan allegiances: Italy's three state channels are each aligned with specific parties, for example. The political independence of the BBC in Britain is unusual, and is in any case contested by critics who complain that it is too left-leaning. In India 81 of the 500 satellite-TV channels that have sprung up in the past 20 years are news channels, most of them catering to specific political, religious, regional, linguistic or ethnic groups. Only a few take an objective, pan-Indian approach, says Daya Thussu of the University of Westminster.

If impartiality is already the exception rather than the rule, the internet is now eroding it further. In America it undermines local news monopolies by reducing advertising revenue and providing access to a wide range of alternative sources, thus undoing Mr Rosen's grand bargain. In Britain and other countries where news broadcasters are required to be impartial, at least in theory, the convergence of television and the web makes such rules seem outdated. Mark Thompson, the director-general of the BBC, said at a seminar last December that he thought the case for polemical, opinionated news channels was "persuasive", though the BBC's own news coverage would remain impartial. The internet has also compressed the news cycle, with headlines delivered instantly by smartphone or Twitter, creating a demand for immediate analysis and opinion.

Moreover, the internet makes it easier than ever to find and synthesise different views, says Krishna Bharat, the creator of Google News. The idea for the site occurred to him in the months after the attacks of September 11th 2001, when he became frustrated by the inefficiency of visiting lots of different websites to get a broader picture of the news. When news comes from multiple sources, a mix of strong opinions becomes more desirable. "It's time to embrace the fact that certain news sources have a point of view, and that's why they have the following they do," says Mr Bharat. "I think there's a place for all of them." By undermining many of the traditional arguments for objectivity, the internet may thus cause a wider "Foxification" of news and a return to the more opinionated and partisan media landscape of the 18th and early 19th centuries. "Almost every country that has an open society is going to have some kind of opinion television programming," says Mr Shine.

This does not mean that all news organisations should take overtly political positions. Mr Rosen is just one of many media watchers who think it is time to release journalists from the straitjacket of pretending that they do not have opinions-what he calls the "view from nowhere". Journalists signal their impartiality by quoting people on opposing sides of an argument and avoid drawing conclusions, even when the facts are clear. "There have been times in the past when CNN has been criticised for being neutral-not only non-partisan, but not really having positions," says Mr Whitaker. But lately, he says, "we have been stronger in taking a point of view when we think it is supported by our reporting and by facts."

Transparency is the new objectivity

One way forward, suggests Mr Rosen, is to abandon the ideology of viewlessness and accept that journalists have a range of views; to be open about them while holding the reporters to a basic standard of accuracy, fairness and intellectual honesty; and to use transparency, rather than objectivity, as the new foundation on which to build trust with the audience. He cites the memorable phrase coined by David Weinberger, a technology commentator, that "transparency is the new objectivity". In part, this involves journalists providing information about themselves. For example, on AllThingsD, a technology-news site owned by Dow Jones, all the journalists provide an "ethics statement" with information about their shareholdings, financial relationships and, in some cases, their personal life (two journalists are married to employees at large technology companies). "People are more likely to trust you if they know where you are coming from," says Mr Rosen.

Transparency also means linking to sources and data, something the web makes easy. Bloggers have long used the technique to back up their views. Ezra Klein, a blogger at the *Washington Post*, has suggested that news organisations should publish full transcripts of interviews online. WikiLeaks' Julian Assange, a fan of radical transparency if ever there

was one, makes a similar argument. "You can't publish a paper on physics without the full experimental data and results. That should be the standard in journalism," he said last year. Mr Weinberger has observed on his blog that transparency prospers in a linked medium: "Objectivity is a trust mechanism you rely on when your medium can't do links. Now our medium can."

A special report on the news industry: The end of mass media

Coming full circle

THERE IS A great historical irony at the heart of the current transformation of news. The industry is being reshaped by technology-but by undermining the mass media's business models, that technology is in many ways returning the industry to the more vibrant, freewheeling and discursive ways of the pre-industrial era.

Until the early 19th century there was no technology for disseminating news to large numbers of people in a short space of time. It travelled as people chatted in marketplaces and taverns or exchanged letters with their friends. This phenomenon can be traced back to Roman times, when members of the elite kept each other informed with a torrent of letters, transcriptions of speeches and copies of the *acta diurna*, the official gazette that was posted in the forum each day. News travelled along social networks because there was no other conduit.

The invention of the printing press meant that many copies of a document could be produced more quickly than before, but distribution still relied on personal connections. In early 1518 Martin Luther's writings spread around Germany in two weeks as they were carried from one town to the next. As Luther and his supporters argued with his opponents over the following decade, more than 6m religious pamphlets were sold in Germany. "News ballads", which spread news in the form of popular songs, covered the defeat of the Spanish Armada in 1588, among many other events.

In January 1776 Thomas Paine's pamphlet "Common Sense", which rallied the colonists against the British crown, was printed in a run of 1,000 copies. One of them reached George Washington, who was so impressed that he made American officers read extracts of Paine's work to their men. By July 1776 around 250,000 people, nearly half the free population of the colonies, had been exposed to Paine's ideas. Newspapers at the time had small, local circulations and were a mix of opinionated editorials, contributions from readers and items from other papers; there were no dedicated reporters. All these early media conveyed news, gossip, opinion and ideas within particular social circles or communities, with little distinction between producers and consumers of information. They were social media.

The rise and fall of mass communications

The invention of the steam press in the early 19th century, and the emergence of mass-market newspapers such as the New York *Sun*, therefore marked a profound shift. The new technologies of mass dissemination could reach large numbers of people with unprecedented speed and efficiency, but put control of the flow of information into the hands of a select few. For the first time, vertical distribution of news, from a specialist elite to a general audience, had a decisive advantage over horizontal distribution among citizens. This trend accelerated with the advent of radio and television in the 20th century. New businesses grew up around these mass-media technologies. In modern media organisations news is gathered by specialists and disseminated to a mass audience along with advertising, which helps to pay for the whole operation.

In the past decade the internet has disrupted this model and enabled the social aspect of media to reassert itself. In many ways news is going back to its pre-industrial form, but supercharged by the internet. Camera-phones and social media such as blogs, Facebook and Twitter may seem entirely new, but they echo the ways in which people used to collect, share and exchange information in the past. "Social media is nothing new, it's just more widespread now," says Craig Newmark. He likens John Locke, Thomas Paine and Benjamin Franklin to modern bloggers. "By 2020 the media and political

landscapes will be very different, because people who are accustomed to power will be complemented by social networks in different forms." Julian Assange has said that WikiLeaks operates in the tradition of the radical pamphleteers of the English civil war who tried to "cast all the Mysteries and Secrets of Government" before the public.

News is also becoming more diverse as publishing tools become widely available, barriers to entry fall and new models become possible, as demonstrated by the astonishing rise of the *Huffington Post*, WikiLeaks and other newcomers in the past few years, not to mention millions of blogs. At the same time news is becoming more opinionated, polarised and partisan, as it used to be in the knockabout days of pamphleteering.

Not surprisingly, the conventional news organisations that grew up in the past 170 years are having a lot of trouble adjusting. The mass-media era now looks like a relatively brief and anomalous period that is coming to an end. But it was long enough for several generations of journalists to grow up within it, so the laws of the mass media came to be seen as the laws of media in general, says Jay Rosen. "And when you've built your whole career on that, it isn't easy to say, 'well, actually, that was just a phase'. That's why a lot of us think that it's only going to be generational change that's going to solve this problem." A new generation that has grown up with digital tools is already devising extraordinary new things to do with them, rather than simply using them to preserve the old models. Some existing media organisations will survive the transition; many will not.

The biggest shift is that journalism is no longer the exclusive preserve of journalists. Ordinary people are playing a more active role in the news system, along with a host of technology firms, news start-ups and not-for-profit groups. Social media are certainly not a fad, and their impact is only just beginning to be felt. "It's everywhere-and it's going to be even more everywhere," says Arianna Huffington. Successful media organisations will be the ones that accept this new reality. They need to reorient themselves towards serving readers rather than advertisers, embrace social features and collaboration, get off political and moral high horses and stop trying to erect barriers around journalism to protect their position. The digital future of news has much in common with its chaotic, ink-stained past.

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A special report on the news industry

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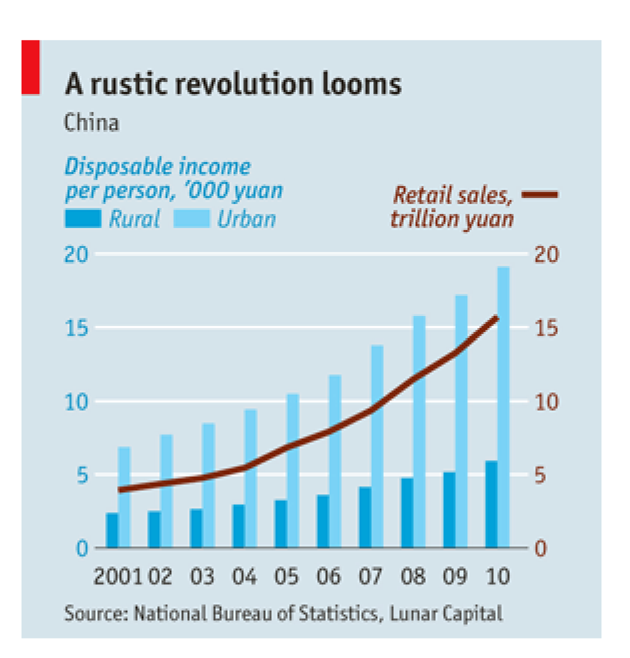
The mystery of the Chinese consumer

In the first of a two-part series on Asian consumers, we ask what makes the Middle Kingdom's shoppers tick



LILY LI wears a lanyard with a little plastic card around her neck, even at weekends. It is a badge of honour: it shows that she has a white-collar job. (She is a secretary at Access Asia, a retail-research company in Shanghai.) She uses Apple earphones for the cheap Chinese mobile phone in her pocket, so it looks as if she owns an iPhone. And she drives to work, though it takes four times longer than public transport, just to show off her little car.

After decades of deprivation and conformism, Chinese consumers regard expensive consumer goods as trophies of success. In public, they show off. In private, they pinch pennies. The owner of a gleaming new BMW will drive around for half an hour to avoid a 50 cent parking fee. And she will hesitate to spend much on interior decoration, because only her family sees the inside of her flat.



By some forecasts China will be the second-largest consumer market in the world by 2015, not far behind America. Chinese people already buy more cars than people in any other country: 13.5m last year to Americans' 11.6m. China is on its way to becoming the biggest luxury-goods market. The central government made an increase in domestic consumption one of the priorities of its latest five-year plan.

Small wonder that Western firms are piling in. On July 4th Nestle, the world's largest food maker, confirmed that it is in talks with Hsu Fu Chi, one of China's biggest makers of confectionery and baked goodies, with a view to buying the firm.

If a deal is sealed, it would be one of the largest foreign takeovers yet seen in China: Hsu Fu Chi is valued at $2.6 billion on the Singapore stock exchange. China is currently Nestle's ninth-biggest market, with sales of SFr2.8 billion ($2.7 billion) last year. That is less than half what Nestle sells in Brazil, although China has seven times Brazil's population. Hence Nestle's hunger for Hsu Fu Chi's distribution network, and for its knowledge of what tickles Chinese taste buds.

"Understanding the consumer is the most important thing for us," says Paul Bulcke, the boss of Nestle. The food business is more local than almost any other-trying to sell cheese in China is like trying to sell stinky tofu in Switzerland. Nestle has been sniffing around for takeover targets in China for the past two years. Hsu Fu Chi is not its first bite. In April it took a controlling stake in Yinlu Foods Group, a family-owned maker of peanut milk and canned rice porridge.

Multinational firms trying to woo Chinese consumers have so far concentrated on the country's thriving coastal regions. P&G, an American maker of shampoo, toothpaste and other sundries, has its Chinese headquarters in Guangzhou. Its Anglo-Dutch rival Unilever's home is in Shanghai. Yet both firms are preparing for a "second consumer revolution" among the 665m Chinese who live in rural areas. The income gap between China's coastal cities and rustic interior is still six-to-one, but rural incomes are rising and 665m heads could use a whole lot of shampoo.

The Chinese government presents its own unique challenges. "Everything is political," says James McGregor, a former head of the American Chamber of Commerce in China. "This is a government that lets foreign companies build market share when it needs them." Its longer-term goal is to learn enough from foreigners so it can build its own national champions. To this end, it pushes foreign carmakers, among others, into unhappy partnerships with Chinese state-owned firms.

Almost all Western consumer-goods makers have felt Beijing's heavy hand. Bernard Arnault, the boss of Moet Hennessy Louis Vuitton (LVMH), a luxury-goods firm, was summoned by the Chinese ambassador in Paris in 2008 for a high-decibel dressing down after Nicolas Sarkozy, France's president, said he would meet the Dalai Lama. In the following weeks scores of women marched into Louis Vuitton shops in China with fake Louis Vuitton handbags and brazenly demanded their money back.

Unilever got into trouble recently for hinting that the price of some of its products would rise. The Chinese government is terrified of inflation, which it fears might spark unrest. It accused Unilever of inciting shoppers to hoard its products, and slapped it with a hefty fine. Yet Harish Manwani, Unilever's chief operating officer, is undeterred. He is planning to increase Unilever's business in China four- or fivefold in the next few years.

Buttering up local party bosses

The central government is not the only problem. Companies need to cultivate cordial relations with local potentates, too. Often the provincial governor's say-so is needed to obtain land, employment licences and a stack of other bits of paper a firm needs to operate. Local party bosses tend to favour local Chinese firms-another reason why tie-ups can be helpful.

Another big challenge for Western multinationals is that their Chinese rivals are catching up fast. "Domestic players will be ferocious competitors," predicts Derek Sulger at Lunar Capital, a private-equity firm in Shanghai.

For now, Western firms enjoy a lucrative reputation for quality and safety. Lead pollution from local tinfoil-making workshops in Zhejiang province recently injured 103 children and scores of adults. Chinese consumers are as averse as anyone else to being poisoned, so such incidents persuade many to buy Western brands. But domestic companies can make things much more cheaply, and their quality is improving.

Some Western consumer-goods firms that are also-rans at home do surprisingly well in China. Back in America, Kentucky Fried Chicken (KFC, part of Yum! Brands) is dwarfed by McDonald's. In China it has 3,300 restaurants-more than three times as many as its rival-and opens a new one each day. The secret of its popularity is local managers with the freedom to adapt KFC's offerings to the Chinese palate. That means fewer bargain buckets of wings and more *congee,* a rice porridge with pork, pickles or mushrooms.

Other Western firms can't cope. Home Depot, an American DIY chain, is retreating from China after trying for years to persuade middle-class Chinese people to decorate their own homes.

Home Depot "didn't understand the market for home decoration," says Ben Cavender at China Market Research in Shanghai. Chinese people typically have no garages in which to store tools. And there are legions of poor people who will paint and decorate for low wages. The middle classes tend to hire decoration companies, which subcontract to whichever construction firm pays the best kickbacks. At the beginning of this year Home Depot closed its last shop in Beijing. It now has only seven stores on the Chinese mainland.

In a recent report on market dynamics and a profile of the Chinese consumer, Bernstein Research offers several tips to help Western consumer-goods firms profit from the "second consumer revolution". Don't offer too many brands: offer only a few, but produce in quantity to exploit economies of scale. Keep improving your products and (crucially) the packaging; otherwise you won't keep pace with such a fast-changing market. Build an efficient distribution network early on-delivering goods to inland shelves is hard. And court talent tenaciously. Few employees are loyal, and few want to work in the countryside, even if they were born there. Finally, be patient. It may be years before your Chinese operations make money.

Bernstein could have added: beware. The rules in China are still being written. Different arms of government may interpret them differently (see next article). And if someone in power changes his mind, there is not much you can do about it.

Will the Chinese government allow Nestle to buy Hsu Fu Chi? In 2009 it rejected a $2.4 billion bid by Coca-Cola to buy Huiyan Juice Group, a drinks firm, for no apparent reason. Analysts say that this is unlikely to happen again, however. "The company is not strategically important and together Nestle and Hsu Fu Chi would control only about 5% of the market," says Jon Cox at Kepler Capital Markets in Zurich. As the world's largest chocolate-maker Nestle has high hopes for a market of more than a billion people who currently eat shamefully little chocolate.

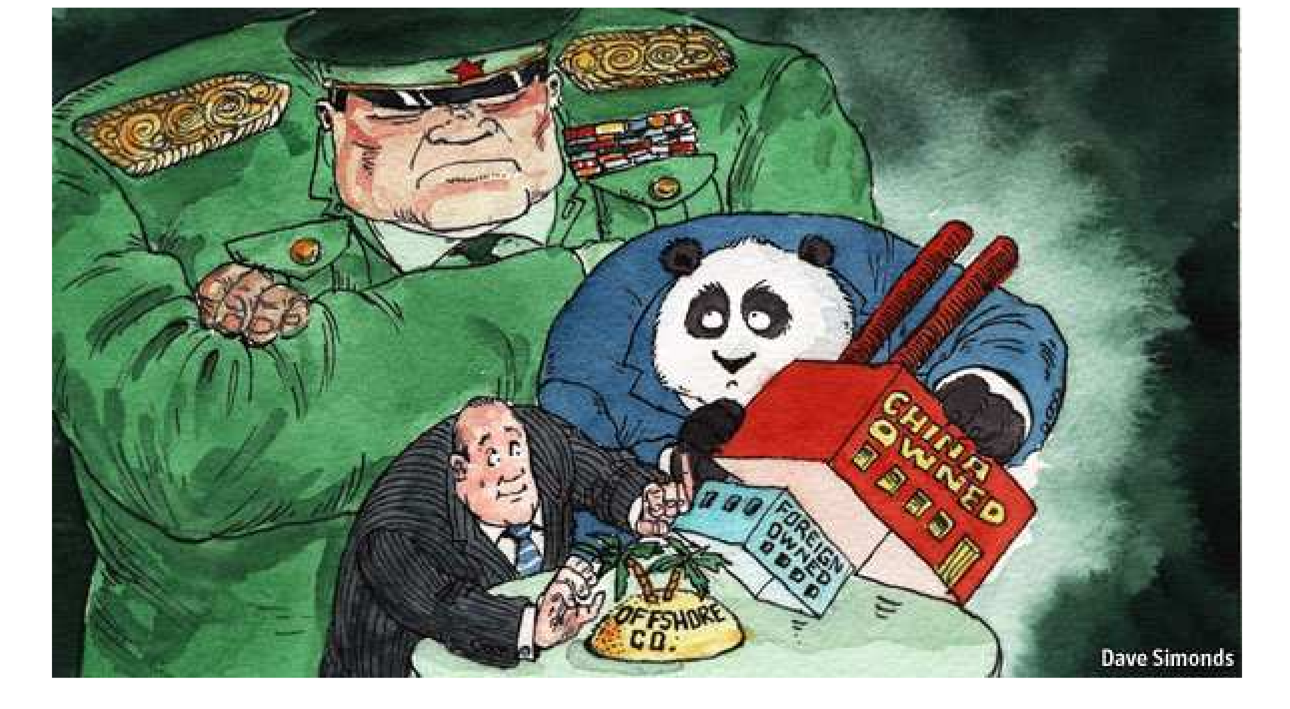
Much could go wrong. Many economists think Chinese households save too much. Some fear a property bubble or a banking crisis. The risks of selling consumer goods in China are immense. But so is the opportunity cost of staying away.

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China's murky ownership rules

Who owns what?

The perils of investing where the law is unclear



OWNERSHIP is rarely straightforward in China. After Mao Zedong died and land was opened up for commercial development, each plot came with only a 50-year government lease. No one knows what will happen when those leases expire. Yet building projects continue apace.

Foreign investors face a similar conundrum. Several Chinese industries, such as mining, steel, education, telecommunications and the internet, are both capital-hungry and politically sensitive. They need foreign investment, but the law bans foreigners from owning stakes in them.

Eager investors and canny locals have found ways around the rules. Perhaps the most important is the creation of a complex investment vehicle called a "variable interest entity" (VIE). It works like this: valuable Chinese assets are placed in a Chinese company. This entity, the VIE, must be run by a Chinese citizen. A series of contracts are then arranged, shifting the returns from the VIE first to a foreign-owned company registered in China and then to an offshore company, perhaps in the Cayman Islands.

This structure-a Chinese-owned company in China, a foreign-owned company in China and an offshore parent-is known as the "Sina" model, after the first Chinese internet company to be listed overseas. It is used by about half of the Chinese companies listed in America, says Paul Gillis, a professor at Peking University. Numerous other unlisted companies use it as well. It allows Western companies to invest in China without breaking local ownership restrictions.

There are signs, however, that the Chinese government has begun to frown on VIEs. In 2006 the Ministry of Information, which regulates internet firms, said it was taking a look at them. In 2009 three other ministries announced that VIEs were banned for companies involved in internet games.

Berating Buddha

In March, says Thomas Shoesmith, an attorney with Pillsbury, a global law firm, a $38m bond offering in America for a company called Buddha Steel was withdrawn after authorities in Hebei province blocked its VIE with a local steel plant. Officials said that the very existence of a VIE contravened Chinese management and public policies. An anxious debate followed: was this the random act of a single region, or a wake-up call from Beijing?

A dispute between Alibaba, a Chinese internet group, and Yahoo!, an American firm that owns 43% of Alibaba through a VIE, suggests the latter. The Alibaba VIE recently transferred a valuable asset (Alipay, an online-payments firm) to a local Chinese company controlled by Jack Ma, Alibaba's chairman. Yahoo! was outraged. Alibaba claims it had no choice. It says it was warned by China's central bank that Alipay would not be allowed to operate if it was, in effect, partly foreign-owned.

In theory, the same problem could afflict the rest of the Alibaba Group. But Alibaba says its other operations will be unaffected because they fall under a less fussy regulator, the Ministry of Information.

Perhaps so, but Mr Gillis, who has long blogged about the potential pitfalls of VIEs, is suddenly getting lots of attention. Alibaba is not unique. Other firms with VIE structures are also involved in electronic payments. At least one has a foreign partner. Now that the issue is in the news, China is under pressure to spell out what is permissible, and what is not. The risk that big foreign firms will suddenly find that their investments in China are illegal or worthless is surely remote. Or is it?

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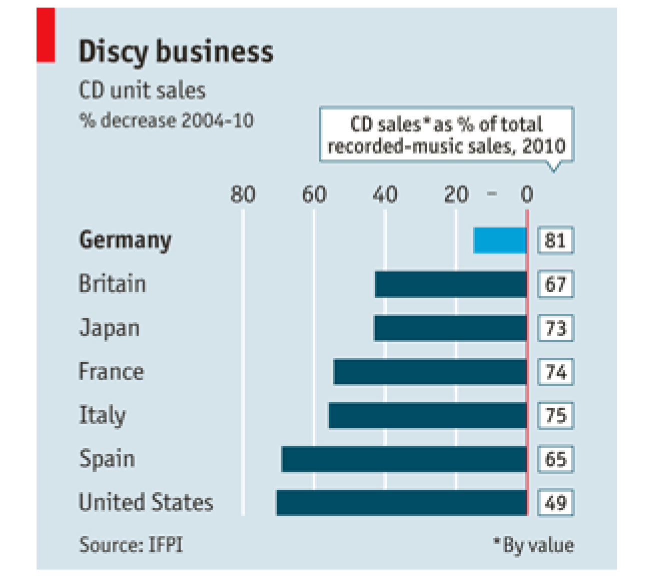
Germany's odd media

Last-mover advantage

By moving slowly, the German media market stays ahead



BY THE summer of 2005 the future of music seemed to be digital. Apple was selling iPods by the boatload, and the iTunes store was doing brisk business. But in Germany, a different path was being laid. Universal began to tinker with CD packaging, offering lots of "deluxe" editions of albums while putting others into cheap cardboard sleeves to appeal to bargain-hunters. "We did not forget about the physical market," says Frank Briegmann, head of Universal's German operation. Neither did German consumers.



Despite iTunes, piracy and a shrinking population, CD sales have fallen much more gently in Germany than elsewhere (see chart). Germany used to compete with France for the title of Europe's second-biggest music market, well behind Britain. It is now Europe's biggest market. The country has exported pop acts like Tokio Hotel (pictured) across Europe. Unheilig, a band that sings in German, popped up on last year's global top 40 albums chart, beating the likes of Gorillaz and Robbie Williams.

As customers shun Anglo-Saxon media stores such as Waterstone's and Borders, they keep coming to Germany's Media Markt and Thalia. German home-video sales have been virtually flat for six years, according to Screen Digest. In America, by contrast, sales are down by 29%. Sales of German magazines and newspapers are declining, but in a more orderly fashion than in Britain or America, and from a higher starting-point. As a result, they remain attractive to advertisers.

Why the attachment to tangible stuff? "There's a collecting mentality," suggests Keith Feldman, the head of international home entertainment at 20th Century Fox. Although Germans do not consume film or music as avidly as Britons or Americans, they are far more committed to buying it. Blockbuster, a video-rental store, failed in Germany, and digital streaming has not caught on. Fox has even begun to put videos on sale weeks before it releases them for rental-something that would be unthinkable almost anywhere else, and impossible in America, where there are laws to prevent it.

Law and institutional conservatism play a part, too. Efforts to introduce free music-streaming services to Germany have been held up by the country's performing-rights society. Fixed-price rules prevent Amazon and other digital distributors from undercutting bookstores. Publishers are allowed to lock people into long-term subscriptions. And Germany's legal system has allowed media firms to demand mass prosecutions of file-sharers, which seems to have deterred piracy.

Germans also have money to spend on newspapers, books, CDs and DVDs because they aren't spending it on television. Public broadcasters levy a compulsory fee, but relatively few people pay cable or satellite broadcasters for extra channels. In Britain, BSkyB is a pay-TV powerhouse, with 10.1m customers and profits of pound174m ($279m) in the most recent quarter. Sky Deutschland (like BSkyB, controlled by News Corporation) has 2.7m customers and quarterly losses of euro86.9m ($118.9m). Meanwhile the free-to-air broadcaster RTL is making a fortune.

Oddly, though, German media executives are as anxious as their counterparts elsewhere. Newspaper publishers fear the growth of internet advertising. Music executives worry about rising piracy and lament the lack of streaming services like Spotify. The consensus is that Germany is bound to follow America and other countries. It will be disrupted by technology. It just isn't as far along the path.

It is likely, too, that pay-television will continue to grow. Extremely late, German consumers are being introduced to digital video recorders, high-definition pictures and video-on-demand-areas in which pay-TV companies have a big advantage. Few expect them to pay much for such fripperies, at least at first. Lutz Schuler, head of Unitymedia, a cable company, says Germans still regard things like cars, holidays and saving as more essential than entertainment. But pay they will. The rise of pay-TV, like the rise of the internet, is bound to disrupt older media businesses.

Yet it is a lot easier to cope with slow, inexorable change than the abrupt kind, especially if you get to watch other countries change first. With time on their hands, many German firms are positioning themselves to endure or even profit from disruption. Axel Springer, publisher of *Bild*, is reinvesting German newspaper profits in online classified-ad services. Hubert Burda Media, a family firm, has done similarly. Several are pushing into fast-growing Polish and Turkish media markets.

German moguls may be anxious. But that is because they know more-or-less what is coming. They can plan for disruption, whereas American and British outfits must often simply react. Firms everywhere like to tout their digital innovations, and boast of having "first-mover advantage". But it can be better to go last.

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Dow Chemical

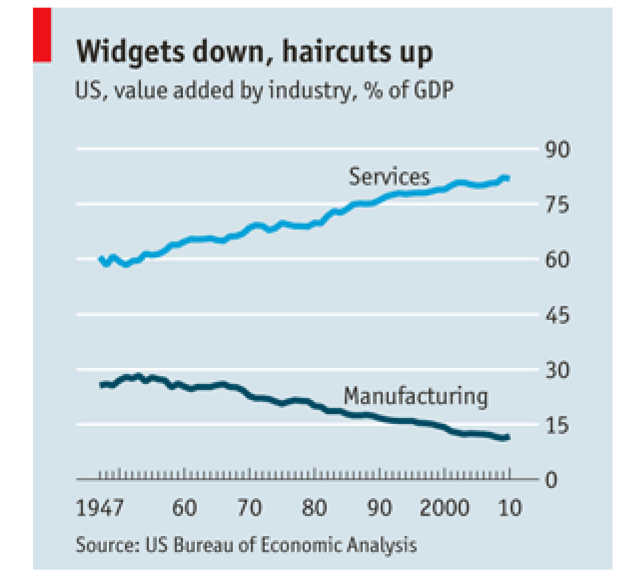
Making it in America

A man and a firm with a plan to revive American manufacturing



Mr Liveris wants your money

"THE remarkable juxtaposition of American heartland, Midwest values and a whole lot of foreign accents" is what makes Midland, Michigan, a beacon of hope for the country's manufacturing sector, reckons Andrew Liveris. His is one of those accents, though he no longer sounds crocodile-wrestlingly Australian. The boss of Dow Chemical has lived on and off for years in the company town that grew up around the brine wells that Herbert Dow first tapped in 1897 for his pioneering electrolysis process. The chemical firm still employs 5,500 of the town's 42,000 inhabitants. (The second-biggest employer is Dow Corning, a silicone-making joint venture.) Dow's success has delivered the nice homes, good schools and ball parks that make up the American Dream.



Like many immigrants, Mr Liveris shares that dream. But he now fears it is under threat. He has become one of the leading voices calling on the American government to embrace industrial policy. Last July Dow launched a plan to revive American manufacturing, which Mr Liveris then expanded into a book, "Make It In America". On June 24th President Barack Obama appointed him co-chair of a new "Advanced Manufacturing Partnership" that brings together government, academia and business to "build a roadmap" for a more competitive manufacturing sector.

Mr Liveris is not arguing for protectionism. (Dow Chemical earns two-thirds of its revenues abroad.) On the contrary, he wants America to retake the lead in toppling trade barriers. But he does want the government to develop a strategy to help American firms compete with foreign rivals. Other countries are acting like companies, he worries. China and its imitators are following deliberate strategies to create manufacturing jobs. America should behave like a company, too, he argues.

The one he has in mind is Dow. Other American firms, he thinks, should follow Dow's lead by moving away from basic manufacturing and towards the advanced sort that adds most value. If Dow needs a new source of basic ingredients, it relies mostly on joint ventures with foreign firms such as Mitsui of Japan. But its main focus now is the clever stuff: specialty chemicals that are used for everything from water-purification systems to solar roof tiles. Dow has hundreds of products in its pipeline that will exploit four "megatrends": clean energy; health and nutrition; rising consumerism in emerging markets; and investment in transport and infrastructure.

For decades, American manufacturing has given way to services (see chart). Mr Liveris thinks this is neither desirable nor inevitable. Making things and innovation go hand-in-hand, he says, and manufacturing jobs have a higher multiplier (ie, each manufacturing job creates more additional jobs than a job in services). Not all economists agree.

The sector's image as outdated may have discouraged young Americans from acquiring the skills needed for a career in advanced manufacturing, says Mr Liveris. "Americans are used to thinking about manufacturing jobs as a caricature of what [they were] decades ago: jobs that required relatively little skill and even less critical thinking," he grumbles. Getting America to train more engineers and the like is a key part of his plan.

He also thinks America should try harder to attract foreign talent. A good start, he points out, would be to issue more work visas. Over 1m jobs in science and technology will open up in America this year, but only 200,000 new graduates will have the skills to fill them, he calculates. That is why chemical engineers are among the best-paid new graduates.

Dow has reduced its exposure to volatile commodity prices by using long-term contracts. Mr Liveris wants America to do the same thing, sort of, by getting serious about energy policy. He complains that not enough is being done to promote clean energy, an increasingly important business for Dow. He also frets that heavy-handed regulation may stop America from taking advantage of its vast reserves of shale gas. Until America found shale gas, Dow was "progressively shutting factories here and in Western Europe", says Mr Liveris. Now he sees huge opportunities at home.

Subsidies made in America

Mr Liveris chides regulators for imposing too many needless costs on business. He also wants his adopted home to have one of the lowest rates of corporate tax in the world, as it did in the 1980s. (It now has one of the highest.) Fair enough. But other parts of his plan are more controversial. He wants the government to offer bigger financial incentives for companies to locate in America, both by making the research-and-development tax credit permanent and also by offering tax breaks or grants to build plants in the country.

China does it, observes Mr Liveris, which is true. Many American firms have gone abroad to munch taxpayer-funded carrots. Dow benefits handsomely. According to Mr Liveris, the terms of its blossoming partnership with China "will not be like any we have ever had with a nation". Already, Dow has a highly innovative R&D centre near Shanghai, churning out products such as paint that takes formaldehyde out of the air.

In fact, America offers many subsidies for manufacturers. Dow has had hundreds of millions of dollars from local, state and federal taxpayers, with which it is expanding its operations in Midland, creating nearly 2,000 jobs. New plants are to open, making such things as lithium-ion batteries that can be used in vehicles (in a joint venture with Dassault, a French firm, and TK Advanced Battery of South Korea). On July 6th Dow announced another joint venture, with Japan's Ube Industries, to make electrolytes.

Many of the new jobs Dow is creating will be filled by former assembly-line workers from Michigan's slimmed-down car industry, retrained with government money. Next to Dow's headquarters, a swanky new building will soon offer more new jobs in a back-office-services joint venture with Tata Consultancy Services, a big Indian outsourcing firm.

Companies love being given taxpayers' cash, of course. Whether taxpayers benefit is a different question. If countries compete to offer the biggest subsidies, the main winners may be shareholders. That is why the European Union enforces tough limits on what it calls "state aid".

If Mr Liveris is troubled by the thought that small-government types would consider him a scrounger, he does not show it. America needs to shake off the short-term thinking that nearly hobbled his transformation of Dow, he reckons.

In 2006 two of his top executives secretly tried to sell the firm to private equity. Mr Liveris believes that this would have led to its break-up. In 2008 the financial crisis-caused by quick-buck financiers, of course-nearly wrecked Dow's purchase of Rohm and Haas, another chemicals firm. Mr Liveris also complains that the American government "stalls every two years" with the election cycle.

Yet Mr Liveris says he is optimistic. "This country does well when a crisis looms. We are recognising that joblessness is a crisis. If we ring the alarm bell, we can move to the solution stage." Does he have the right solution? Free traders and other manufacturers will applaud at least part of it. Taxpayers may not.

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Korean animation

Of penguins and politics

Pororo the penguin could be the next Teletubbies



A profitable penguin

CHILDREN'S characters are often subversive. Harry Potter promotes underage sorcery. Tinky-Winky encourages homosexuality (he is purple and carries a handbag). And Pororo, an adorable cartoon penguin, is probably a communist.

Not really. But South Koreans until recently feared that Pororo, one of their most popular cultural exports, might be banned in America because of a link with the communist North. A few episodes made between 2002 and 2005 were part-produced by North Korean animators, and thus possibly fell foul of America's ban on imports from that benighted country. After an uproar in South Korea, however, America's Treasury Department announced last month that the show was a form of "information" and therefore not subject to sanctions.

Pororo and his pals (Poby the polar bear, Crong the dinosaur, etc) delight anklebiters in more than 100 countries. In South Korea, the little blue penguin has 1,500 spin-off products and a section in a theme park. In March 3m Pororo-branded postage-stamp sets sold out in just ten days. Pororo is so powerful that Koreans call him *Potongryong* ("President Pororo"). According to the Seoul Business Agency, Pororo will generate global sales of 38 billion won ($36m) this year, and the brand is worth 389.3 billion won for Iconix (the firm that created it) and others.

Two explanations are offered for Pororo's success. First, Choi Jong-il, the founder of Iconix (pictured, with friend), meticulously studied the storylines, theme music and other aspects of Western preschool hits such as Teletubbies. Second, Korea is home to legions of gifted animators. (Korean schoolkids are obsessed with Japanese-style *manga*.)

South Korean animators have for many years done much of the heavy lifting on American TV shows such as "The Simpsons". Some American firms have also made use of cheaper animators from the North. Jing Kim, a Beijing-based businessman, claims that he has helped a number of companies to subcontract animation work from 500 artists at SEK Studio in Pyongyang.

Pororo's success suggests that South Koreans can sell stories as well as drawing skills. Yet the cartoon attracts controversy at home. One exasperated father has started a campaign to make Pororo eat Korean food, instead of Western cakes. But just as Pororo himself dreams of flying, his creators dream of global stardom. So Pororo probably won't be wolfing *kimchi* anytime soon.

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Schumpeter

How to make college cheaper

Better management would allow American universities to do more with less



DEREK BOK, a former president of Harvard, once observed that "universities share one characteristic with compulsive gamblers and exiled royalty: there is never enough money to satisfy their desires." This is a bit hard on compulsive gamblers and exiled royals. America's universities have raised their fees five times as fast as inflation over the past 30 years. Student debt in America exceeds credit-card debt. Yet still the universities keep sending begging letters to alumni and philanthropists.

This insatiable appetite for money was bad enough during the boom years. It is truly irritating now that middle-class incomes are stagnant and students are struggling to find good jobs. Hence a flurry of new thinking about higher education. Are universities inevitably expensive? Vance Fried, of Oklahoma State University, recently conducted a fascinating thought experiment, backed up by detailed calculations. Is it possible to provide a first-class undergraduate education for $6,700 a year rather than the $25,900 charged by public research universities or the $51,500 charged by their private peers? He concluded that it is.

Mr Fried shunned easy solutions. He insisted that students should live in residential colleges, just as they do at Harvard and Yale. He did not suggest getting rid of football stadiums (which usually pay for themselves) or scrimping on bed-and-board.

His cost-cutting strategies were as follows. First, separate the funding of teaching and research. Research is a public good, he reasoned, but there is no reason why undergraduates should pay for it. Second, increase the student-teacher ratio. Business and law schools achieve good results with big classes. Why not other colleges? Mr Fried thinks that universities will be able to mix some small classes with big ones even if they have fewer teachers. Third, eliminate or consolidate programmes that attract few students. Fourth, puncture administrative bloat. The cost of administration per student soared by 61% in real terms between 1993 and 2007. Private research universities spend $7,000 a year per student on "administrative support": not only deans and department heads but also psychologists, counsellors, human-resources implementation managers and so on. That is more than the entire cost of educating a student under Mr Fried's scheme.

Veteran university-watchers may dismiss Mr Fried's ideas as pie in the sky. ("The only part of college not mired in tradition is the price," grumbles Ben Wildavsky, a co-editor of "Reinventing Higher Education".) Yet some universities are beginning to squeeze costs. The University of Minnesota's new campus in Rochester has defined teaching as "job one". The Harrisburg University of Science and Technology has abolished tenure and merged academic departments. Regents at the University of Texas are talking about a $10,000 undergraduate degree.

Mr Fried fails to mention an obvious source of savings. Americans could complete their undergraduate degrees in three years (as is normal elsewhere), instead of four. In practice, most American students take even longer than four years, not least because so many work to pay their tuition. Surprisingly, America's future chainsaw-wielding corporate titans take a leisurely two years to complete their MBAs; most Europeans need only one.

Shai Reshef, an educational entrepreneur-turned-philanthropist, is pioneering an even more radical idea. His University of the People offers free higher education (not counting the few hundred dollars it costs to process applications and mark exams), pitching itself to poor people in America and the rest of the world. The university does this by exploiting three resources: the goodwill of academic volunteers who want to help the poor, the availability of free "courseware" on the internet and the power of social networking. Some 2,000 academic volunteers have designed the courses and given the university some credibility. Tutors direct the students, who so far number 1,000 or so and hail from around the world, to the online courses. They also help to organise them into study groups, and then supervise from afar, dropping in on discussions and marking tests. Mr Reshef pays for incidental expenses with $2m of his own money and donations.

There are plenty of questions about Mr Reshef's project. Can you really build a university on volunteerism and goodwill? Can students really be relied upon to do most of the teaching themselves? Will free courseware remain free? (Newspapers that used to give away content online are now putting up pay barriers.)

Mr Reshef's university has yet to win accreditation, which could take years. But he can take comfort from Clayton Christensen's classic book "The Innovator's Dilemma". Mr Christensen points out that innovators often start by offering products that are cheaper, but markedly inferior. Quickly, however, they learn how to improve their offerings. Even if Mr Reshef fails, there are plenty of other disruptive innovators around. In America, one tertiary student in ten already studies exclusively online. One in four does so at least some of the time, and a growing number of bodies, including elite universities, think-tanks, governments and international organisations, are putting first-rate material online.

The coming campus rumpus

Sometimes when academics grouse that there is "never enough money", they are justified-big science costs big bucks. But higher education is nevertheless marred by inefficiencies and skewed incentives. Students pay to be taught, but their professors are rewarded almost entirely for research. Mr Fried's calculations suggest that one can slash costs without sacrificing much that students value. Mr Reshef's experiment may fail, but there is no doubt that universities need more experimenters. The cost of tuition cannot forever rise faster than students' ability to pay. Industries that cease to offer value for money sooner or later get shaken up. American universities are ripe for shaking.

Economist.com/blogs/schumpeter

Aviation

Climbing through the clouds

Airlines and the aircraft industry are belatedly being buffeted by globalisation



LAST month 230 international airlines gathered in Singapore for the annual meeting of the International Air Transport Association (IATA), their trade body. The price of oil, at more than $110 a barrel, cast a pall over proceedings: a rise of $1 a barrel adds $1.6 billion to airlines' costs, and IATA expects a barrel to cost an average of $30 more this year than last. The industry's net profits of $18 billion in 2010, a rare good year, were forecast to plunge to $4 billion in 2011 (see chart 1). Yet only a fortnight later at the Paris Air Show airlines went on a $90 billion shopping spree, ordering 730 planes from Airbus and 142 from Boeing, enough to keep production lines humming for seven years.



Two things explain this paradox. The first is that because oil accounts for a third of operating costs, airlines are desperate for more fuel-efficient planes. Late last year Airbus brought out a re-engined version of its A320 single-aisle family, offering fuel savings of up to 15%. It has become the fastest-selling new aircraft in history. More than 1,000 have been ordered, many of them by fast-growing budget airlines. The biggest demand is in the Asia-Pacific region: India's IndiGo and Malaysia's AirAsia ordered 380 between them in Paris. This illustrates the second explanation, the tilt of aviation, like that of so many other industries, to the east. Profits in Asia were double those in the rest of the world last year (see chart 2) and growth rates there are stronger than in Europe and North America.

But civil aviation is undergoing a more wrenching change than just a drift eastward. A history of regulation and government involvement has left it burdened by trade protection, inefficiency and excess capacity. Airlines helped to bring about globalisation, but their own industry is far from globalised. Instead of globe-spanning giants, the world has 230 flag-carriers and several dozen budget airlines. Even last year the industry's profit margins were not fat. Only those innovative low-cost carriers make decent money.



Yet this old model is coming under pressure: consolidation of a sort is taking place at a regional or continental level. The rapid growth of Asian traffic is one reason for this. The rise of low-cost carriers born in liberalised markets is another. And over the past decade airlines have been buffeted by one external shock after another, from the terrorist attacks of September 11th 2001 and the SARS health scare to recession in Western economies, volcanic eruptions (last year in Iceland, this year in Chile), the Japanese earthquake and tsunami, and the rise in oil prices.

The effect of this succession of troubles can be seen in airlines' profits. Airlines took six years to recover from losses of $13 billion in the *annus horribilis* of 2001 and made a profit of $14.7 billion in 2007. But then the cost of a barrel of jet fuel more than doubled, to $170, just as the recession sent load factors down. Some airlines, such as Ryanair, the biggest European budget carrier, have taken to parking many of their planes in the winter rather than burning fuel in half-empty aircraft.

The sharp recovery that began last year as fuel costs eased and demand picked up was soon snuffed out when oil prices rose again. Giovanni Bisignani, a former boss of Alitalia and the head of IATA from 2002 until this year, reminded colleagues in his leaving speech in Singapore that even in 2010, "the best year of the decade", they had "a pathetic [net profit] margin of 3.2%". For most of the past 40 years, he notes, margins were merely 0.1-0.2% on average. At the best of times airlines are fragile. Even low-cost successes such as easyJet and Ryanair make losses some of the year.

IATA claims that its members have made great strides in cutting costs, carving out $55 billion a year. For example, persuading countries to open air space to allow more direct routes has saved $16 billion on fuel. Squaring up to monopoly suppliers such as airports and air-traffic-control services has yielded a further $19 billion. A broad programme to simplify the business by, for example, phasing out paper tickets for online bookings, introducing bar-code boarding passes and streamlining baggage and freight handling is worth about $18 billion. Although this sounds impressive, it amounts to a saving of only 10%-and it took seven years.

Consolidation-of a kind

Some efforts have gone further. For years airlines in America staggered in and out of Chapter 11 bankruptcy, which was supposed to give them protection from creditors until they became fit to fly profitably again. Their reliance on this device was criticised by foreign carriers as a disguised subsidy that maintained excess capacity and postponed overdue consolidation. Yet it did eventually lead to reductions in cost, for example by allowing airlines to renegotiate labour agreements with unions.

The industry's plight also led to an easing of the antitrust scrutiny that had attended airline mergers. Delta was cleared to take over Northwest Airlines in October 2008. Struggling United Airlines and Continental were allowed to merge in September 2010, after several spells in Chapter 11. The mergers helped airlines trim their capacity and restore profits (although rising oil prices pushed them back into loss this year). The only network carrier in America not to go through Chapter 11, American Airlines, has fallen on hard times, slipping from the number-one slot to number three. Its share price has fallen by about 80% in the past five years as it has slid into loss. Without the pain of bankruptcy to force change, it is left with the highest labour costs and pension obligations.

European airlines have been consolidating too. Air France and KLM led the way, merging in 2004. They created a holding company so that each airline could keep nation-specific traffic rights under bilateral deals with countries outside Europe and America. The liberalising "open skies" deal between these two blocks, signed in 2007, made European mergers much easier by allowing European and American airlines to fly from anywhere on one side of the Atlantic to anywhere on the other.

After much dithering British Airways and Iberia got together in 2010. BA plans to use Madrid as a second base to get around capacity limits at Heathrow, where plans for a third runway have been blocked. Paris-Charles de Gaulle and Frankfurt now serve more destinations directly than London's main airport does. Lufthansa has swallowed Swissair and Sabena, and has taken full control of bmi British Midland. However, the European Commission has blocked purely national mergers between Ryanair and Aer Lingus, in Ireland, and Olympic and Aegean, in Greece.

The big limitation of the open-skies arrangement was that it left in place the 25% limit on foreigners' stakes in American carriers. In the European Union non-EU investors are restricted to 49%. Limits on foreign ownership have spurred international airline alliances, which for years have pooled marketing and sold seats on each other's flights, to press for the antitrust immunity needed for deeper integration, or "virtual" merger. The pursuit of this is justified by a (contested) theory that virtually merged airlines offer lower fares on flights through their hubs. Separate carriers, seeking to maximise profit on each leg of a journey, would charge more.

As a result of all this consolidation on both sides of the Atlantic, Aviation Economics, a consultancy, says that this summer three virtually merged groupings will carry 73% of traffic across the ocean. These are: International Airlines Group (BA and Iberia) plus American Airlines; United, including Continental, and Lufthansa and Air Canada; and Air France-KLM with Delta, incorporating Northwest. Some routes from continental airports, such as Frankfurt or Amsterdam, are monopolised.

The failure to scrap barriers to foreign ownership has meant there are no intercontinental mergers. Aviation has thus missed out on the sort of global rationalisation that occurs in most other industries. Apart from the transatlantic joint ventures, attempts at linking up between continents have tended to be disappointing. Singapore Airlines makes no secret of its desire to ditch its 49% stake in Virgin Atlantic, which is in turn up for sale by Virgin Group because it can no longer compete across the Atlantic with merged and virtually merged rivals.

Newcomers in new places

Perhaps the most surprising bout of consolidation and revival, however, has been in Latin America. Governments in the region have followed Chile's lead and decided to get out of the way of private airlines. The failure of Brazil's state-owned airline, Varig, was a turning-point. It helped the rise of Gol, a Brazilian low-cost carrier, and TAM, which has a more traditional network. Now TAM is planning to merge with LAN, a privatised Chilean airline which has long set the regional standard for efficiency in its open, liberalised home market. LAN has built partnerships with airlines in Colombia, Costa Rica and Panama. Most of these are family-owned and are therefore able to act quickly and boldly without the

hindrance of nervous capital markets or restrictive state shareholders. The merged company, LATAM Airlines Group, will be one of the largest quoted airlines in the world.

The rise of another region, the Gulf, is causing acute pain to American and European airline executives. Led by Dubai's Emirates, Gulf airlines are redefining long-haul travel. Emirates is often accused by envious Europeans of growing thanks to state subsidies. It is owned by the government, but had only a tiny capital injection to get going 25 years ago.

Since then it has expanded profitably, helped by its government's pro-aviation policies such as the rapid expansion of its home airport and the provision of efficient air-traffic control. Above all, Emirates, led by two British veterans, Maurice Flanagan and Tim Clark, twigged that in the age of aircraft capable of flying 18 hours non-stop, Dubai was the ideal spot for a new kind of hub. Planes such as Boeing 777s (of which it is the biggest buyer) and Airbus A380s (ditto: 15 are already flying and 90 are on order) can fly anywhere in the world from Dubai. It is free of air-traffic congestion, has no ban on night flights and has plenty of runway space. Emirates' remarkable success is one reason why air-travel growth is fastest in the Middle East.

Dubai is handily placed to connect nearby emerging markets, such as India and Pakistan, with the rest of the world: as people there become better off, they want to travel more. But it has built links to Europe too. While Europe's flag carriers concentrated on their hubs, Emirates sought secondary markets such as Manchester, Glasgow, Hamburg and Dusseldorf. Messrs Flanagan and Clark saw that passengers would happily fly from such cities to Cape Town, say, via Dubai, stopping briefly or even overnight, if transit was pleasant and the fare was cheap.

When Emirates was setting up these routes, European governments saw no threat from this upstart Arabian airline and were happy to grant it traffic rights in liberal bilateral treaties. Now they are stuck with them and can do nothing to fight the competition, since Dubai is, in essence, a tax-free zone with access to cheap labour from the Indian subcontinent. Emirates reported a 52% rise in profits this May; the year before they increased fivefold. Because its routes are exclusively long-haul, Emirates has planes flying 18 hours a day, making them remarkably productive.

Dubai already has the world's third-busiest international airport, with traffic growing at 20% a year. On July 6th it said it would spend $7.8 billion on expanding it. Yet a huge new one, costing $35 billion, is being built and is already open for cargo. In about ten years, with its five runways and capacity to handle 160m passengers a year, it will be the largest airport in the world.

Emirates will also have the biggest fleet of the biggest airliners. Some observers believe that Emirates is a pioneer of low-cost long-haul travel, capable of keeping economy fares below competitors' if it has to. By deploying so many large, economical aircraft from a vast base, open around the clock and halfway between Europe and Asia, Emirates could in effect run a global hub, reducing European airports to a feeder role and impoverishing their associated flag carriers. No wonder airlines such as Lufthansa keep sniping at Dubai and its alleged "subsidies". And no wonder aviation accounts for 28% of Dubai's GDP.

China leads the way to freedom

For the first half-century of its emergence after the second world war, civil aviation was dominated by the huge American market, where distance favoured air travel for domestic journeys. Internationally, other countries were afraid of the dominance of the two biggest American carriers, TWA and Pan American. For their part, Americans were afraid of hostile European planes flying over their homeland, perhaps to drop bombs rather than passengers. That mutual lack of trust gave rise to the Chicago Convention on air travel in 1944 and then to restrictive bilateral air-traffic deals, exemplified by the so-called Bermuda agreement covering transatlantic flights. IATA was formed to run this regulated aviation commerce, acting as a clearing house for payments between airlines and drawing up rules for everything from the size of sandwiches to the price of headphones for in-flight films.

Those days are on the way out. Mr Bisignani, the retiring boss of IATA, reckons that China will lead the way now. The Asia-Pacific region already accounts for 40% of the air-cargo market and 26% of passenger travel, making it bigger than America. By 2014 the region is forecast to have 30% of the world air-travel market, adding 210m passengers from China alone. China has built 45 new airports in the past five years and plans another 52 by 2020. India is waking up to aviation after a long sleep. It has fast-growing low-cost airlines and plans to make Delhi a regional hub.

The capital markets seem to have spotted this reshaping of world aviation. Emirates is still locked away in the ownership of the Al Maktoum family, which runs Dubai (although Dubai's financial troubles in 2008 at one point seemed likely to force a flotation to repay debts). But three of the world's leading airlines by market capitalisation are from East or South-East Asia: Air China, Singapore Airlines and China Southern Airlines. With LATAM on the way, the top five will contain only one European airline, Lufthansa, and not a single American carrier, even though American airlines still fly most passengers (see chart 3).



Asia is also proving an unlikely champion of free trade, with little enthusiasm for clinging to outdated, traffic-limiting bilateral deals. ASEAN, the Association of South-East Asian Nations, is working on establishing a single aviation market with no traffic restrictions by 2015. "China will break Bermuda and the old IATA system," says Mr Bisignani. Thus a new economic power that joined the World Trade Organisation only in 2001, whose trade policies are frequently criticised by members of longer standing, is likely to play a leading role in tearing down the restrictions of the most regulated of global industries.

When the dust clears from the sensational order boom (at least for Airbus) in Paris, perhaps reality will crowd in. Past experience suggests that, to paraphrase St Matthew, many are ordered but fewer are delivered. But that seems unlikely this time, given the need for more fuel-efficient planes and the fact that the orders are coming largely from the undersupplied and booming Asia-Pacific region. And there are other sources of demand.

Emirates is already muttering about more orders at the next big air show, in November on its home turf in Dubai. Whereas in Paris carriers splurged on single-aisle planes, the rise of long-haul budget carriers could boost sales of wide-bodied craft in the next few years. Tony Fernandes, boss of AirAsia, wants Airbus to put new engines and improvements on the A330, which is used by his company's long-haul budget airline, AirAsia X. And European carriers such as Air France-KLM and Americans such as American Airlines urgently need to replace ageing wide-bodied planes with more efficient modern ones.



Ready for take-off

The shifts in global aviation may affect builders of aircraft as well as buyers. Boeing and Airbus could lose their tight grip. Embraer in Brazil and Bombardier in Canada are moving up from smaller regional jets to big ones; and Russia's Irkut and China's Comac are entering the international market for single-aisle airliners. Ryanair has signed a co-operation deal with the Chinese company, with a view to using it as an alternative to Boeing, its sole supplier. As aviation goes properly global, so might the aircraft industry. Wherever you look, newcomers are muscling in on what was once a Western domain.

Deleveraging

You ain't seen nothing yet

The process of reducing the rich world's debt burden has barely begun



FOR Federal Reserve officials, marking down America's economic outlook has become a depressing routine. A year ago they projected growth of about 4% this year and next. By last month they had chipped those numbers down to 2.8% this year and 3.5% next. "We don't have a precise read on why this slower pace of growth is persisting," said Ben Bernanke, the chairman. But he ventured that "balance-sheets and deleveraging issues" may be stronger headwinds than expected.

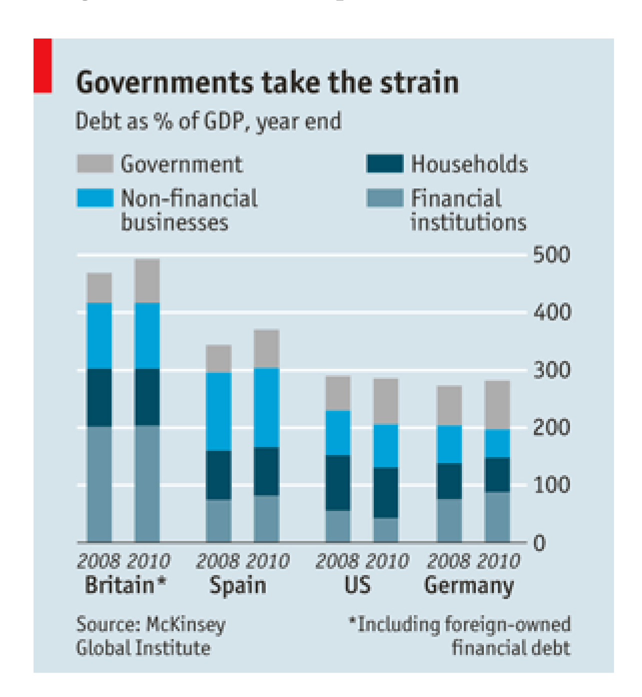
The same diagnosis may explain similar disappointments in other highly indebted rich countries. In late 2009 the Bank of England reckoned Britain would be growing by 4% this year. It now thinks it will grow by closer to 2%; the private-sector consensus is a mere 1.5%. The Bank of Spain has avoided similar climbdowns by starting out pessimistic and remaining so.

In a study early last year, the McKinsey Global Institute, the consultancy's research arm, noted that combined public and private debt burdens had reached historic highs in many rich countries. Based on previous episodes of debt reduction, it reckoned that once deleveraging began, countries would on average spend the next six to seven years whittling those debt ratios back by around 25%.



McKinsey has updated some of those numbers and has found that although debt for the most part has stopped rising as a share of GDP, in only one big economy, America, has it visibly fallen. Private-debt burdens have begun to drop but across the rich world that has been offset by an increase in public burdens (see charts). Deleveraging is "just starting", says Charles Roxburgh of McKinsey.

McKinsey's original prognosis was grim: after a crisis, countries historically saw their economies contract in the first year or two of deleveraging. No big economy has yet fallen back into recession after exiting its post-crisis downturn (although that risk remains given the low level of growth and how far debt reduction has to go). But the deleveraging process helps explain why some recoveries have been vigorous and others tepid.



Germany and Canada, for example, entered the crisis with relatively low levels of public and private debt. In Canada household debt has actually risen as the country's housing market has inflated. Germany has grown faster than expected, while Canada's growth, at around 3%, has been on target.

Italy, France and Japan entered the recession with low household debt but high levels of government borrowing. France has implemented a fiscal consolidation plan; Italy's cabinet approved one on June 30th. French growth is picking up but Italy's continues to lag behind and Italian bond yields have risen lately as worries about peripheral European solvency spread. The earthquake and tsunami in March have disrupted both Japan's recovery and its hopes of reducing its enormous debt burden.

Spain, Britain and America have the worst of both worlds. All three started with dangerously stretched household balance-sheets. Now, because of the collapse in private economic activity and the use of stimulus measures, the public books are in similar straits.

Even their experiences, however, differ in important ways. American households have already chipped their debts down to 112% of annual disposable income, according to Haver Analytics, from a peak of 127% in 2007. Britain's decline has been less dramatic and Spain's debt-to-income ratio has hardly fallen at all.

Mr Roxburgh thinks the differing legal structure of mortgage markets may explain some of the difference. In many American states, in contrast to Britain and Spain, a lender has no recourse to a defaulting homeowner's income or other assets. The borrower thus has an incentive to default on a mortgage worth more than his home. Write-offs are running at around 2% of banks' secured loans in America but close to zero in the euro zone and Britain.

In Spain and Britain house prices have also fallen less steeply than in America and borrowers have been cushioned by ultra-low interest rates, reducing their incentive to pay down or walk away from debt. Higher mortgage payments will add to the squeeze on Spanish households, however: the European Central Bank was expected to raise short-term interest rates for the second time this year on July 7th after *The Economist* went to press. The Spanish government is trying to lessen the pressure, announcing on July 1st that more of a borrower's income would be shielded from seizure, and more of a mortgage could be cancelled once a property is auctioned.

Britons have raised their savings rates more than Americans or Spaniards, despite a smaller increase in unemployment and comparable trends in income. A 2010 survey for the Bank of England suggested the government's drastic deficit-reduction

plan may be a reason: 18% of respondents expected to save more in response to higher taxes and reduced public services, and just 3% expected to spend more.

This cannot fully explain Britain's lacklustre recovery-higher fuel prices and disappointing export growth are also to blame. But it is still a cautionary tale for America. Both Britain and Spain "have adopted sobering deficit-reduction plans that have severely hit households' expectations of real disposable income whereas the US has not," says Simon Hayes of Barclays Capital. That may change soon: the Obama administration and Congress are currently negotiating a deficit-reduction package that could amount to $4 trillion or 2% of GDP over ten years. In June the IMF urged America to slash its structural deficit by a cumulative 7.5% of GDP by 2016, enough to trim 0.5-0.75 percentage points off average growth over the period. If that advice is followed, Mr Bernanke should brace for more downward revisions.

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Spain's economy

Split personality

How vulnerable is Spain? The answer depends on which Spain you mean



EUROPE'S sovereign-debt crisis has already engulfed Greece, Ireland and Portugal. But the real fear is that it might spread to a large economy. Spain, whose GDP is almost double that of the three rescued countries put together, has long

been a source of concern. Although it entered the crisis with relatively low public debt, at just 36% of GDP in 2007, that figure will rise to an estimated 68% by the end of 2011 because of big deficits. Worse, Spain shared several of the smaller economies' weaknesses, like a loss of competitiveness and big current-account deficits.

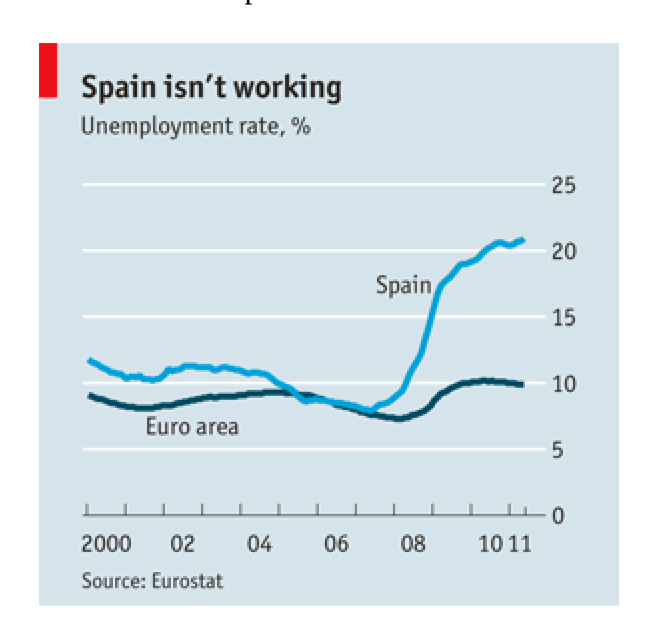
The immediate threat of contagion from Greece receded on June 29th when the Greek parliament passed a plan for more austerity, opening the way for the country to get another chunk of bail-out money. But just as Greece's problems have not really gone away, nor has Spain's vulnerability. A land of striking physical contrasts, Spain has an economy to match. There are, in effect, two Spains, one vibrant and one sickly. Reinforcing one and reviving the other require painful reforms.

An example of this duality is the fiscal grip of the central government compared with that of the 17 regions. Last year the centre had to make up for regional slippages. That allowed the overall deficit to fall as planned from 11% of GDP in 2009 to just over 9%, in the first year of an austerity programme belatedly introduced by the Socialist government of Jose Luis Rodriguez Zapatero. But the next milestone on the journey to fiscal sobriety-a deficit of 6% of GDP this year-may be harder to pass. Figures out on June 30th showed no progress in the first quarter of 2011.

One reason may be that the mix of retrenchment has switched: last year over half of the adjustment came from higher taxes, this year over two-thirds is to come from spending cuts. Whereas the central government determines the main taxes, more than a third of public spending, including on health and education, is undertaken by the regions. Jose Manuel Campa, the economy minister, says of the austerity measures that "the regions have considerable fiscal autonomy so this is an effort that they as well as the central government must make together." The centre can exert control indirectly through deficit targets and the right to veto borrowing. But Juan Jose Toribio, a former director of IESE Business School in Madrid, worries that these tools will be ineffective and thinks regional spending limits are needed.

Another duality lies in the banking system. Observers fret that the Spanish state may have to pump a lot more money into the banks than the roughly euro25 billion ($36 billion), or 2.5% of GDP, it currently reckons will be the total bill from Spain's epic housing boom and bust (Ireland's bank bail-out bill is over 40% of GDP).

The problem is concentrated in the *cajas*, local savings banks that make up around half the domestic banking system, rather than big Spanish banks like BBVA and Santander, which are protected by big international businesses. Not before time the government is overhauling the *cajas*. Their ranks are being slimmed-the number has fallen from 45 to 18-and they are being reorganised as joint-stock companies that can raise equity capital. Jose Maria Roldan, director-general of banking regulation at the Bank of Spain, says that the reform is "a huge step forward, replacing the *caja* model with a standard banking template that is more secure and comprehensible to international investors."



The austerity programme and the reform of the *cajas* are moves in the right direction but neither will work if the economy continues to stagnate. The recovery so far has been disappointing, although one bright spot is a big reduction in the current-account deficit. Spanish GDP grew by just 0.3% (an annualised rate of 1.2%) in the first quarter, when the euro area as a whole expanded by 0.8%. The IMF forecasts that the Spanish economy will grow by just 0.8% in 2011. Most

worrying, unemployment has soared, from an average of 8.3% in 2007 to 20.9% in May, the highest in the European Union (see chart).

The source of Spain's egregiously high unemployment lies in the most pronounced division of all in its economy, that between insiders and outsiders in the labour market. Barriers to firing employees mean that employers generally take on new staff on temporary contracts. "Old" employees benefit from wage-escalation clauses that tie pay to prices. Astonishingly, real wages rose by 3.2% in 2009 when the economy shrank by 3.7%.

Faced with rigidities like this, a clutch of big Spanish firms like Telefonica, a telecoms company, have chosen to expand abroad rather than at home. Only about a third of its business is now in Spain. Mr Campa claims that labour-market reforms are "going in the right direction". Santiago Fernandez Valbuena, Telefonica's chief strategy officer, says that they have done nothing to make life easier for employers.

That leaves Spain facing a grave social as well as economic crisis. Its youth-unemployment rate (for under-25s) is also the highest in Europe, at 44.4% (the average in the euro area is 20%). Although many youngsters can rely on family safety-nets, such bleak figures explain the explosion of anger among the Spanish "indignants".

The twain in Spain

The dualities do not end there. As Rafael Domenech, an economist at BBVA, points out, they also include the gulf between the productivity of big exporting companies and small domestically oriented firms. This gap helps to explain why Spain has been able to defend its market share in world trade even though it has become less competitive on gauges like relative unit-labour costs.

Whether the economy rides out the euro-area crisis will depend on which Spain prevails-the more competitive version or the hidebound one. It will require far deeper reforms than are planned. But with a general election due by March 2012, party politics are coming to the fore and the tempo of reform is slowing. If this continues, so will market jitters.

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Ratings agencies and the debt crisis

More contortions

Plans to roll over private creditors' Greek debt run into trouble



ECB job applicant

PITY the ratings agencies. During the financial crisis they were slammed for being in hock to the people they rated and for being hopelessly wrong on their structured-credit scores. Now they are being slammed for showing some backbone and for being right. On July 5th, for example, Moody's downgraded Portugal's rating to junk, prompting Jose Manuel Barroso, the head of the European Commission, to talk darkly of bias. "Our analysis is more refined and complete," he said (in a Portuguese accent).

That the view of private ratings agencies should matter so much is partly the fault of the Europeans themselves. Take the negotiations on an agreement for private creditors to roll over as much as euro30 billion ($43 billion) of Greek debt, to reduce the size of the country's next official bail-out. A complex proposal advanced by the French banking lobby had been seen as a basis for such an agreement.

These hopes were rocked on July 4th when Standard & Poor's (S&P), another ratings agency, said that it would probably declare Greece to be in selective default if it implemented the French rollover plan. S&P argues that any exchange or restructuring that diminishes the value of bonds would trigger default. Moody's followed up on July 5th by warning that an extension of Greek debt maturities might lead to impairments on banks' books.

Their opinions matter principally because the European Central Bank (ECB) says it will not accept Greek bonds as collateral if the agencies declare they are in default. If the ECB followed up on that threat, Greek banks could see their funding dry up (although some think Greece's central bank might even then be able to keep providing funds to its banks through a scheme known as Emergency Liquidity Assistance). Details of a rollover are still being discussed-some big banks are now talking about supporting a Greek buyback of existing debt at market prices. But the contortions have begun to make sure that a default rating would not cause chaos.

The ECB itself has been hinting that all of the main agencies (Fitch is the other biggie) would have to declare a default before it would stop accepting Greek bonds as collateral. Another line of argument is that some defaults are worse than others. Take the term "selective default", which means that only those bonds that are directly affected by a restructuring get downgraded while others can retain their ratings (and presumably be used at the ECB).

Greece may also be in default only for a matter of days or weeks. Ratings agencies are coy about how long this status might last but S&P has said that it would reassess after a "short time" and apply a new rating to Greece based on its expectation of the country's ability to service its debt. Once it emerges from default, the ratings on the defaulted bonds

would be lifted, too. The biggest boost to ratings would come from a large reduction of Greece's debt stock. Needless to say, that's not on the table.

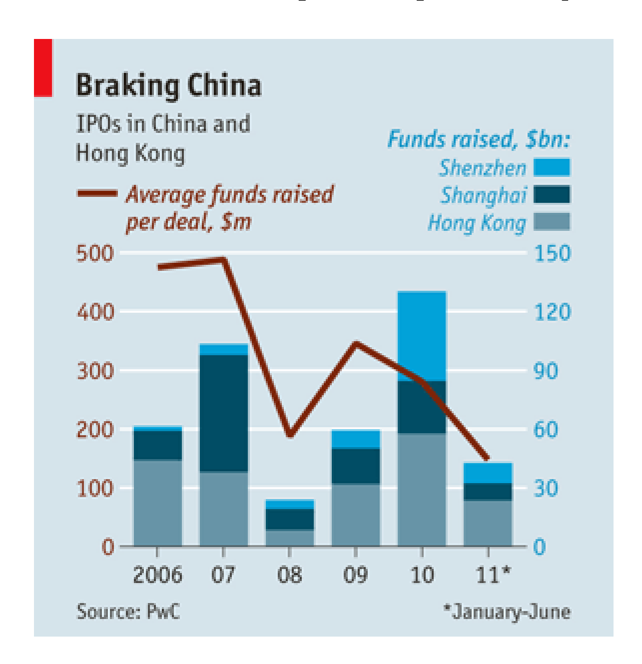
Chinese IPOs

A pause or a plunge?

A hot market starts to sputter

BACK in May, the biggest problem for bankers, lawyers and accountants in Hong Kong was finding enough people to handle a deluge of initial public offerings (IPOs). Come July and the mood has abruptly changed. Officially only seven IPOs have been abandoned this year, meaning that a prospectus has been issued and withdrawn. But plenty more have been shelved at an earlier stage on worries about China's slowing economy (which were reinforced by another interest-rate rise this week).

The bullish view is that any pause in the IPO frenzy will be short-lived. PwC, a consultancy, this week forecast that the second half of 2011 would be even more active than the first. It expects a total of 110 IPOs for the year in Hong Kong (after 48 in the first six months) and almost triple that number on the mainland, in Shenzhen and Shanghai. Edmond Chan, a PwC partner, points out that the first-half boom came in spite of Japan's earthquake, the Arab spring and crisis in Greece.



During the second half of the year, Mr Chan predicts, at least one large Chinese bank, two securities companies, one insurance company and a few (very large) construction companies will probably list in Hong Kong, along with a host of retail and consumer-goods companies. The size of the listings on all three Chinese markets has, on average, been declining (see chart), as smaller private companies supplant state enterprises, but there is no fall in the appetite to go public. And along with Asian companies, says Mr Chan, there is clear evidence that Hong Kong has become a focal point for the listing of companies from around the world.

There is another perspective. Yes, foreign companies have been listing in Hong Kong and for several years there have been expectations of foreign listings in Shanghai, but the process has not been smooth. Prada, an Italian luxury-goods firm, and Glencore, a Swiss commodities trader, both recently listed in Hong Kong: the offerings were a slog and went off at low prices. In the aftermarket Prada has traded up, a bit; Glencore down, a bit.

All of this is in sharp contrast to 2006 and 2007 when the number of IPOs on the various Chinese exchanges began to accelerate. Early on, the gains were staggering, creating huge demand for whatever might be offered next. But over the past two years PwC reckons 30-40% of listing firms soon traded below their offering prices.

That means the markets are changing. Questions are being asked about how debuting companies are structured, about their accounts and about the overall growth story in China. More information is being demanded, something many Asian firms are still reluctant to provide. Mr Chan says future deals will be done in droves but he concedes they are likely to command lower valuations. Even the optimistic take has become a little less rosy.

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Carson Block

Red-flag raises

The man behind Muddy Waters, a scourge of listed Chinese companies



CARSON BLOCK isn't the obvious candidate to show up John Paulson, a hedge-fund star who oversees $37 billion in assets. Mr Block is 35 years old. His previous business ventures include a Shanghai storage company called Love Box Self Storage. He co-authored a book called "Doing Business in China for Dummies". Muddy Waters Research, his latest firm, has been around for only 12 months.

Most people on Wall Street hadn't heard of him until last month, when he released a report accusing Sino-Forest, a Chinese forest-plantation operator listed in Canada, of overstating its timber holdings. Spooked investors sold the stock, which plunged by 78% in a matter of days, dealing Mr Paulson, Sino-Forest's largest shareholder, around $110m in net losses after he dumped all his shares.

In the year since he founded Muddy Waters, Mr Block's name has become an alarm-bell for investors in Chinese companies. Including Sino-Forest, Muddy Waters has released reports on five firms. In each case the company's stock sank, and in some cases, like China MediaExpress Holdings, which sells advertising on Chinese buses, the companies were delisted.

Sino-Forest and China MediaExpress deny allegations of fraud; Rino International, a maker of environmental equipment, admitted it had falsified some of its contracts. But Patrick Chovanec of Tsinghua University says that denial and confession are almost incidental: "It's not that people concluded he's right about these companies. It's that they realised they don't know whether he's right or not."

Critics accuse Mr Block of fear-mongering and targeting firms for his own gain. Mr Block, who is earnest and surprisingly bright-eyed for someone who wars with corporate management for a living, insists he is trying to protect investors. He isn't a "ninja assassin", he says, beating up companies for the fun of it.

Ninja or not, he works to preserve his mystique. Mr Block divides his time between Hong Kong and America but doesn't like to disclose his location because he has received death threats. He refuses to share any details about his business model, including whether he has outside investors. "All people need to know is that I have a clear conflict of interest," he says, referring to the short positions he takes in the firms he researches.

Muddy Waters has no full-time employees except for Mr Block, and hires contractors to help with research. He probably sells subscriptions to his research reports to hedge funds so they can take short positions in the stocks Muddy Waters will target before he releases those reports to the public. But no one admits to knowing which funds are Mr Block's clients.

Whether his rise to stardom proves short-lived will depend largely on whether his allegations stand up. Sino-Forest, which vehemently denies the accuracy of Mr Block's claims, has commissioned an independent audit to be released within the next few months. Firms are becoming shrewder at fending off Mr Block's claims. After he wrote an open letter to Spreadtrum, a semiconductor company, questioning sales figures, management announced a dividend and share buybacks, which gave succour to anxious investors.

Competition is also a threat. More firms are betting against Chinese stocks, so it is becoming more expensive to borrow shares in target companies. Regulators are also trying harder to police Chinese companies listing in America, depriving short-sellers of potential opportunities. On July 11th and 12th American regulators are expected to meet their Chinese counterparts in Beijing to talk about whether they will be allowed to investigate Chinese firms.

Mr Block may have to wade into muddy waters elsewhere. Some think he may look to Hong Kong-listed companies. Mr Block says he may expand his research to other regions, like Latin America. Just don't expect him to disclose his whereabouts.

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Global house prices

Rooms with a view

Asia's frothiest housing markets are calming down. Is America's bottoming?

The Economist house-price indicators

% change

	Latest	Q1 2010	2006-2011*	Under(-)/over(+) valued†
	on a year earlier			
Hong Kong	23.9	30.3	96	63.7
Singapore	10.1	25.1	63	17.3
France	8.7	1.4	11	48.5
Belgium	5.5	5.1	22	20.5
Switzerland	4.4	4.9	18	5.5
China‡	3.9	10.6	34	13.9
Denmark	2.2	1.3	-10	18.3
Sweden	2.1	10.7	25	35.8
Canada	2.0	1.9	13	21.2
Germany	0.9	-0.7	-4	-12.8
Australia	-0.2	18.8	33	50.1
South Africa	-0.3	10.2	29	*na*
Britain	-1.2	9.1	*nil*	27.8
Italy	-1.6	-3.4	1	8.7
New Zealand	-1.6	6.4	6	17.6
Netherlands	-2.1	6.0	-4	16.9
United States *(Case-Shiller ten-city index)*	-3.1	1.5	-32	-0.5
United States *(FHFA)*	-3.1	-6.4	-13	4.8
Japan	-3.3	-4.0	-12	-35.8
Spain	-4.7	-4.7	-9	39.2
United States *(Case-Shiller national index)*	-5.1	2.3	-33	-11.4
Ireland‡	-12.2	-16.6	-35	22.9

Sources: ABSA; Hypoport; Japan Real Estate Institute; Nationwide; Nomisma; NVM; FHFA; PropertyIQ; Stadim; Swiss National Bank; Standard & Poor's; Thomson Reuters; government offices; *The Economist*

*Or latest available figure
†Against long-run average of price-to-rents ratio
‡New series

THE bubble that caused a global recession has been a long time deflating. The American housing market began to decline half a decade ago and hasn't stopped yet. Prices dropped by 5.1% from the year before, according to the latest S&P/Case-Shiller national index. Among markets tracked by *The Economist*, only Irish homes have fallen further since 2006. Robert Shiller, one of the fathers of the Case-Shiller index, says more hard times lie ahead. Prices may slide another 10-25%, he reckons, as the economy wrings out the excess supply of the bubble years.

By our calculations, however, America's housing market has overshot the fair-value mark, as measured by the long-run average ratio of house prices to rents. Rents are rising: an increase in the cost of rental housing contributed to May's robust American inflation data. With home ownership looking a better deal, prices should stabilise. The Case-Shiller index posted a month-on-month increase in April for the first time since July 2010. It was not alone in showing gains. The Federal Housing Finance Agency (FHFA) price series ticked up in April for the first time since May 2010, and the CoreLogic index of home prices, a favourite of the Federal Reserve, notched price rises in both April and May. The pace of sales has been sluggish but an index of pending home sales posted a surprisingly large gain in May.

The best news of all may be the ongoing improvement in credit conditions. Delinquencies have trended downward since late 2009. Consumer-debt payments relative to incomes are at a 17-year low and household credit scores are rising. Banks are still being stingy with credit but households are better positioned than they were to take advantage of cheaper homes.

Cheapness is not a word to associate with Hong Kong, the most overpriced market in our analysis. House prices in the territory rose by 23.9% year on year in April. The boom may well be coming to an end, however. Like its counterpart on the mainland, Hong Kong's government is trying to restrain property markets. A June increase in down-payment requirements is just the latest in a series of measures to cool the housing sector. Sales volumes have declined steadily for six months, and prices are likely to follow.



Explore and compare global housing data over time with our

China's roaring property markets aren't the only ones in Asia to face a slowdown. In Singapore annual price growth dropped from nearly 18% in the fourth quarter of 2010 to 10% in the second quarter of this year. In Australia boom has turned to outright decline. With commodity markets softening, prices have sagged in resource-dependent cities like Brisbane and Perth. South Africa's once-buoyant market has likewise flipped from rapid growth to retreat.

Moribund markets are the norm in most of Europe but France is bucking the trend. French home prices fell faster than the euro-zone average during the crisis but have rebounded sharply enough to cause some consternation. The ratio of prices to rents is almost 50% above the long-run average. French officials blame tight supply but the government has acknowledged the possibility of "overvaluation". With housing, there's always somewhere to worry about.

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The WTO and China

Hands slapped

A ruling with ramifications

WHEN China joined the World Trade Organisation (WTO) in late 2001, its share of world exports stood at 4.3%. By last year that share had soared to 10.6%, and the country had become the world's biggest exporter. In addition to awe and envy, its rise has spawned a rapidly growing list of trade quarrels. China was a party to only two of the 93 trade disputes that were taken to the WTO between its accession and the end of 2005. But in the five years to the end of 2010, it was involved in 26 of the 84 cases filed at the forum.

On July 5th the WTO's dispute-settlement body found against China on three linked complaints. The cases were brought by America, the European Union and Mexico in 2009 and took issue with China's policy of restricting the exports of certain industrial raw materials, including bauxite, magnesium, zinc and silica, of which it is a leading producer. The plaintiffs argued that China's policies gave domestic firms that use these commodities an unfair competitive advantage, while also restricting world supply of these inputs and causing their prices to soar.

China says its restrictions were motivated by its desire to conserve the world's limited supply of these materials and to protect the environment from the pollution caused by their extraction. The problem with this line of argument, as the WTO panel noted, was that although China restricted the export of these commodities, it had done nothing to reduce their actual production. China's policies were in clear violation of its WTO commitments, it found.

China expressed "regret" at the WTO's ruling and has up to 60 days to lodge an appeal. Jeffrey Schott of the Peterson Institute for International Economics, a think-tank in Washington, DC, expects "several more big cases against China soon". But the significance of this judgment goes beyond China. Many countries banned some food exports during the food-price spike of 2008. A renewed period of buoyant commodity prices and demand could easily tempt more governments to emulate China's restrictions on exports of raw materials. The WTO's judgment may dissuade at least some countries from doing so. And given the rotten state of the Doha round of trade talks, a show of teeth in defence of a rules-based trading system is more useful than ever.

Economics focus

Less haste, more freed

Experience suggests Greece's privatisation plan is too fast



WITH a target of euro50 billion ($72 billion) by 2015, Greece's privatisation plan aims to raise more cash as a share of GDP than any OECD government has managed before. If the goal for listed companies is met, the market capitalisation of the Athens stock exchange would double. The economic benefits of privatisation are widely accepted: a 2003 OECD study found "overwhelming support" for the idea that "privatisation brings about a significant increase in the profitability, real output and efficiency of privatised companies." But is Greece's timetable too rapid?

Most privatisation programmes involve a trade-off between long-term structural reform and short-term fund-raising. In Greece's case, there is an urgent need for money. Lenders want Greece to raise as much of it as possible so they can limit the amount they have to fork out in the next bail-out; the IMF hopes that asset sales will mean less growth-sapping austerity.

The trade-off between cash and reform is less severe in some areas than others. Property sales are expected to be Greece's single largest source of revenue. By forcing Greece to spruce up its incomplete land registry, speed could have useful wider effects. But selling stakes in state monopolies is far more complex. Putting in place a regulatory framework that

fosters more competition takes time, and is likely to depress sale prices by removing firms' protections. Here revenue and reform may clash directly.

This is not the first time Greece has embarked on a sales drive. An ambitious privatisation programme in the early 1990s was thwarted by the Socialist Party (then led by Andreas Papandreou, father of George, the current prime minister). Stakes in a handful of companies and banks were eventually sold late in the decade to meet convergence criteria for membership of the euro. But the current plan can draw on decades of privatisation experience, from Margaret Thatcher's programme in 1980s Britain to the state sell-offs in post-communist countries in eastern Europe. Those past programmes offer important lessons for Greece.

The first is the importance of good institutions. In eastern Europe after the collapse of the Soviet Union, the initial advice to governments was to privatise as much and as fast as possible, in the expectation that private owners would demand more reform. Instead many new owners took advantage of weak corporate governance to spirit away profits. There is a particular problem when state-owned utilities are privatised without there being sufficient competition or regulation to restrain price rises. Latin American governments renegotiated more than 50% of contracts with privatised water companies in the 1990s.

An alternative approach is "sequencing", whereby privatisation starts only once institutional reforms have created well-functioning markets. Unlike its Czech and Slovak neighbours, for instance, Poland did not privatise its banks until 1993, after it had imposed capital standards and requirements for loan-loss provisioning. The danger with this approach is that governments delay sales indefinitely. By the end of the 1990s a consensus began to emerge that privatisation and institutional reform should be pursued simultaneously, and that utilities should be privatised more cautiously than companies in contested industries.

A second lesson for Greece is the need for competitive tendering. In Russia in the 1990s early attempts at mass privatisation, through share giveaways to the general public, resulted in diffuse and uninterested owners. Managers faced no pressure to improve performance. Later, the government of Boris Yeltsin offered state companies as collateral to secure bank loans, which it could not repay. That allowed local barons, who controlled banks, to acquire lucrative assets at bargain prices.

Transparent auctions are more likely to attract foreign capital, the value of which is a third lesson. In Hungary bids for state assets from foreign companies drove up prices and government revenue, but also brought in management experience. The result was immediate output gains. Lastly, several studies show that fully privatised companies outperform partially privatised ones, where government influence may distort commercial decisions.

Greased lightning

Some of this should encourage Greece. The country is not Russia in 1991: state expenditure accounts for 50% of GDP, too high but less than in France. The privatisation programme is also embedded in a wider set of institutional reforms. And Greece's membership of Europe's single market makes it a more attractive proposition for foreign investors.

But there is also plenty of cause for concern. The government will retain stakes in many companies and it is bypassing the tendering process for others. The timetable to design a regulatory environment for privatised utilities is absurdly tight. The railway is due to be sold this year along with two gas companies; the country's main power generator follows in 2012.

There are political risks, too. An IMF study of 18 countries in Africa, Latin America and the former Soviet Union found evidence that privatisation proceeds amounting to 1% of GDP tended to produce a 0.5 percentage-point increase in GDP growth in the year of the sale and another 0.4 percentage points in the subsequent year, as well as lasting reductions in the unemployment rate. But new owners of Greek assets would be taking charge in a particularly feeble economic environment, which might lead them to cut jobs (or raise prices) in the short term. Whereas the benefits of privatisation are diffuse and remote-the promise of a dynamic economy tomorrow-the costs tend to be immediate and concentrated on heavily unionised public-sector workers. Without public support the impetus toward privatisation may soon falter. Going too fast now risks a reversal later.

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Robots

Zoobotics

A new generation of animal-like robots is about to emerge from the laboratory

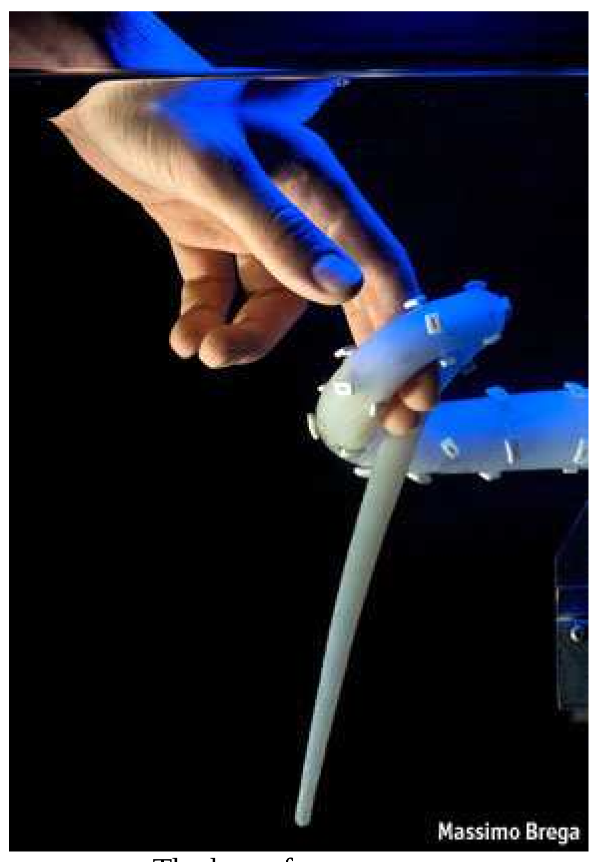


UNTIL recently, most robots could be thought of as belonging to one of two phyla. The Widgetophora, equipped with claws, grabs and wheels, stuck to the essentials and did not try too hard to look like anything other than machines (think R2-D2). The Anthropoidea, by contrast, did their best to look like their creators-sporting arms with proper hands, legs with real feet, and faces (think C-3PO). The few animal-like robots that fell between these extremes were usually built to resemble pets (Sony's robot dog, AIBO, for example) and were, in truth, not much more than just amusing toys.

They are toys no longer, though, for it has belatedly dawned on robot engineers that they are missing a trick. The great natural designer, evolution, has come up with solutions to problems that neither the Widgetophora nor the Anthropoidea can manage. Why not copy these proven models, the engineers wondered, rather than trying to outguess 4 billion years of natural selection?

The result has been a flourishing of animal-like robots. It is not just dogs that engineers are copying now, but shrews complete with whiskers, swimming lampreys, grasping octopuses, climbing lizards and burrowing clams. They are even trying to mimic insects, by making robots that take off when they flap their wings. As a consequence, the Widgetophora and the Anthropoidea are being pushed aside. The phylum Zoomorpha is on the march.

Cecilia Laschi and her team at the Sant'Anna School of Advanced Studies in Pisa are a good example of this trend. They lead an international consortium that is building a robotic octopus.



The hug of a monopus

To create their artificial cephalopod they started with the animal's literal and metaphorical killer app: its flexible, pliable arms. In a vertebrate's arms, muscles do the moving and bones carry the weight. An octopus arm, though, has no bones, so its muscles must do both jobs. Its advantage is that, besides grasping things tightly, it can also squeeze into nooks and crannies that are inaccessible to vertebrate arms of similar dimensions.

After studying how octopus arms work, Dr Laschi and her team have come up with an artificial version that behaves the same way. Its outer casing is made of silicone and is fitted with pressure sensors so that it knows what it is touching. Inside this casing are cables and springs made of a specially elastic nickel-titanium alloy. The result can wrap itself around an object with a movement that strikingly resembles that of the original.

Arms race

So far, Dr Laschi's robot is not so much an octopus as a monopus, but she plans to correct this over the next two years by adding seven more arms and a control system that can co-ordinate them all. The aim is to produce an automaton that could help people do difficult jobs underwater-shutting off leaking oil valves, for example.

Another group of engineers at Sant'Anna, led by Paolo Dario and Cesare Stefanini, are also copying an aquatic creature. This one is a fish: a lamprey.

Lampreys are the simplest living vertebrates. Like octopuses, they have no bones (though they do have a rudimentary skeleton made of cartilage). Their nervous systems are simple, too, which makes them a good starting point for studies of the neurological arrangement that eventually spawned the human brain. Sten Grillner's group at the Karolinska Institute in Stockholm has therefore spent many years studying lampreys, in order to gain insights about vertebrate nerves.

His latest way of doing so is to look at robot versions of the fish. Dr Dario and Dr Stefanini have built him a device called Lampetra (pictured top), which is made of circular segments modelled on the lamprey's cartilaginous vertebrae. Each segment has an electromagnet attached to it, and these are activated by a current that flows from head to tail in more or less the way that a nerve signal flows in a real animal. A segment therefore first attracts and then releases the next, creating a wavelike movement that propels the robot forward.

Lampetra has eyes, in the form of small cameras, and can use information about colours and shapes that these cameras gather in order to get around obstacles. Indeed, the project's main aim is to explain how vertebrates use perception to guide their movements. But Lampetra's unique propulsion system could also have useful applications, as it has proved an efficient way to move a machine through water.

Another zoologist who is using robots to understand the behaviour of real animals is Daniel Germann, of the University of Zurich. He works on clams and is building robot versions of them to find out how the shape of an animal's shell affects its chances of survival.

Many types of clam escape predators by burrowing into the sea bed using alternating movements of their shell and of the soft, muscular foot contained within that shell. These two parts of the animal take it in turns to act as an anchor, while the other digs further into the sediment. Clams also soften the sediment by expelling jets of water from between the valves of their shells. As a result, they can disappear from view in a few seconds, if threatened.

To understand exactly what is going on, Mr Germann has designed a robot clam. It has a bivalve shell, two strings which move the valves against one another, and a small pump that expels water (he is still working on the best design for the foot). Once he has proved that this arrangement can bury itself in a satisfactory manner, he plans to run a competition between robot clams with different shell shapes in order to understand what makes some more efficient than others. Several of the shells he intends to recreate belong to fossil species. Studying these will test the hypothesis that modern shells are more efficient than ancient ones, and thus out-competed them.

Footfall

Both Dr Grillner's and Mr Germann's projects are academically interesting. But other groups are, like Dr Laschi's, looking for practical applications. StickyBotIII, a robot gecko developed by Mark Cutkosky's team at Stanford University, is a good example of this.

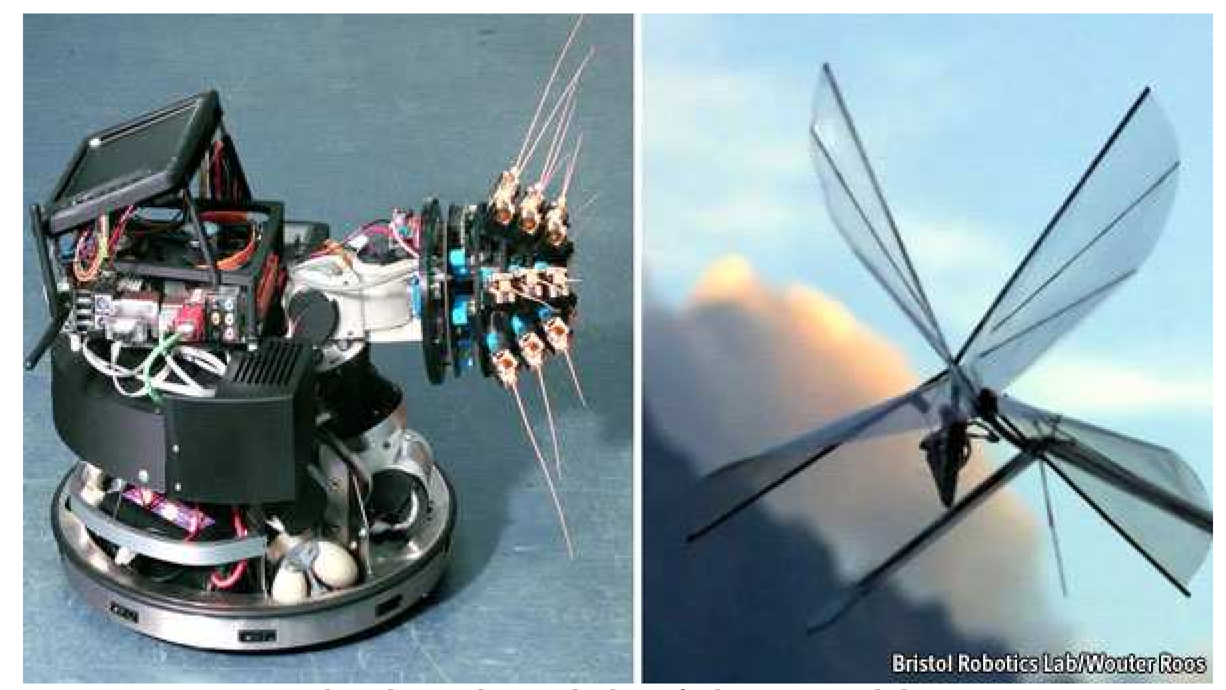
The ability of real geckos to climb walls and walk across ceilings has long fascinated people. A robot that could do the same would have many uses. The gecko's secret is that its toes are covered with a forest of fine structures a bit like the ridges of fingerprints, but with deeper chasms between them. Pressed against a surface, the molecules of these ridges attract those of the surface via an electrostatic phenomenon called the van der Waals force. Given a reasonably lightweight animal (or robot) this force is enough to keep the toes attached to the surface.

Like a real gecko, StickyBotIII has four legs. And, like a real gecko, its toes are covered with suitable ridges. The artificial lizard can perform the same tricks as a natural one. Not only is it able to climb a vertical wall, it can even manage one with an overhang.

Nor are clever ways of moving the only use for zoomorphic robots. They are also able to mimic senses beyond the normal human range. Tony Prescott and his team at the University of Sheffield, in England, for example, are attempting to replicate the exquisitely sensitive whiskers of the Etruscan shrew.

These shrews live underground, and rely on their whiskers to feel what is ahead of them when they are moving around in their burrows. By studying slow-motion footage of shrews, Dr Prescott and his colleagues have discovered that the animals constantly sweep their whiskers back and forth, giving anything that seems interesting a second touch.

Using this information, the researchers have built Shrewbot, a robot that reproduces the animal's head. It has 18 whiskers of different lengths and its software moves these independently of one another, using the information thus gathered to decide whether an object is worth further investigation. So far, Shrewbot can distinguish a smooth surface from a corrugated one. Soon, Dr Prescott hopes, it will be able to recognise basic shapes such as spheres, cubes and cylinders as well. The long-term goal is to build a robot that can operate in places where vision is not much use-smoke-filled buildings, for example.



Shrewbot within a whisker of a hovering DelFly

All of which is well and good. Robot rescuers would be a useful invention. But the ability that a lot of engineers would really like to put into robots is the flapping-wing flight of insects, with its attendant ability to hover. A tiny flying robot of this sort, equipped with a camera, could get into places that are too small or dangerous for people-enemy bunkers, for example-and report what was going on.

In the Netherlands, researchers at the University of Delft, led by Rick Ruijsink, have developed DelFly, a robotic version of a dragonfly that has two pairs of flapping wings which are moved by an electric motor. DelFly can alternate between flying at high speeds and hovering, in order to take a better look at interesting places. The first version operates mostly under remote control, rather than being a true, autonomous robot. It is, however, fitted with a camera and is able to use information from that camera to adjust its height and direction. The hope is that expanding this ability will lead to true autonomy in the future.

Flights of fancy

Another flying robot, the AirBurr, developed by Jean Cristophe Zufferey at the Ecole Polytechnique in Lausanne, uses a different approach. It does not look much like an insect, but it behaves like one. In particular, it has an insect-like way of dealing with obstacles. Instead of trying hard to avoid them in the first place, it is designed to recover quickly from the occasional thud against the wall, and resume flying. To this end, the AirBurr's teardrop-shaped wing and small propellers are protected by flexible carbon rods that absorb shocks, and the robot is balanced in such a way that, even if it falls on the ground, it always lands with its propellers facing up, ready to take off again, just like the annoyingly unswattable insect that is buzzing around your room.

The upshot of which is that you do not need to look like an animal in order to behave like one. Robots of the future might end up resembling medieval monsters, with shrews' heads, octopuses' arms and lampreys' bodies. More likely, though, is

that specialist machines will be designed to collaborate, with reconnaissance airbots feeding information to groups of groundbots or seabots that are designed to perform different tasks-a robotic ecosystem, you might say.

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Physiognomy

Facing the truth

Why a man's face can lie but still produce orgasms



Who are you calling a wide-boy?

THESE days, physiognomy is an unfashionable science. The idea that character is etched into an individual's face is so much at variance with modern notions of free will that research in the area dwindled long ago. But it is making a tentative comeback. Two recent studies of faces suggest that their features do matter, biologically speaking: they can predict dishonesty and they can provoke orgasm.

The study on dishonesty was done by Michael Haselhuhn and Elaine Wong of the University of Wisconsin-Milwaukee, and is published in the *Proceedings of the Royal Society*. Dr Haselhuhn and Dr Wong wondered if a feature already known to reflect aggressiveness in men (but not women) might also predict a tendency to lie and cheat. That feature is the ratio of a face's width to its length. The wider a man's face, the more likely he will hit you.

Honest signals of aggressiveness make sense. Potential victims avoid starting fights they cannot win, while the aggressive get their way without risking injury. It does not, however, obviously make sense to give away in advance of a negotiation that you are likely to lie or cheat in it. Yet Dr Haselhuhn and Dr Wong found this was the case. In both a staged negotiation using MBA students and a separate experiment in which ordinary undergraduates were given an opportunity to earn more money if they misreported the results of a series of die rolls, the two researchers found that the wider a man's face was, compared with its height, the more likely he was to lie about his intentions (in the case of the negotiations) or cheat (in the case of the die rolls). That did not, however, apply to women.

The probable explanation is that the advantage of being seen, reliably, as aggressive outweighs the disadvantage of being, predictably, a cheat and a liar. Also, the fear of retaliation provoked by aggressiveness means victims of cheating and lying might not want to push the point anyway, and might thus be willing to concede a certain amount of slippage in their negotiating position, knowing full well what is going on. Since women rarely use violence to get their way, they do not evolve such signals.

The likelihood of a link between men's faces and women's orgasms is more obvious than that between faces and cheating, but is nevertheless significant. In a study to be published in *Evolution and Human Behavior*, David Puts and his colleagues at Pennsylvania State University found what you might expect-that sex with a good-looking man is more likely to result in orgasm than sex with a minger. What this means is that good-looking men are even more likely to conceive children than was previously believed. Obviously, the handsome have more mating opportunities than the ugly. But if they more often bring a woman to orgasm, as well, each of those opportunities is more likely to result in conception, because contractions of the cervix and vagina during orgasm transport semen deeper into the reproductive tract.

And that is what Dr Puts found. He and his team recruited 70 couples and asked the women how they rated their men's masculinity and attractiveness, and how often and when they orgasmed. They also asked independent observers to rate the men's faces, and found broad agreement with the ratings from partners.

As they predicted, women whose menfolk had attractive, masculine faces orgasmed more often during intercourse. They did not, by contrast, orgasm more frequently during masturbation or other sexual activity. The extra orgasms also came at the same time as the man's climax-just when they would do the most good for conception. Women are thus choosing which men father their children not only in whom they take to bed, but in how they react to them, sexually. The consequence, since looks are inherited, is that their sons, too, will be sexy. Whether they will be cheats and liars is another matter.

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Cell biology

On your marks...

The first cell race in history may further knowledge about how cancers spread

IT WILL not come with garden parties, large hats or eager bookies. And the contestants will be too small to see with the naked eye. But the World Cell Race, due to begin at the end of this month, will be the sporting event of the year for cell biologists.

The idea of the race is simple. Labs from around the world send the runners-whatever sort of mammalian cell they think will do well-to one of six testing sites. There, the cells will be injected onto plates striped with tracks of a chemical they like to adhere to. Progress will be watched through a microscope, by time-lapse photography. And whichever cell covers a tenth of a millimetre fastest (probably taking about an hour to do so) will be declared the winner.

The field is wide open. Unlike horse-racing, the contest is not restricted to thoroughbreds. In fact the organisers, Matthieu Piel, Ana-Maria Lennon-Dumenil and Manuel Thery, who all work in France, are particularly encouraging the entry of genetically modified cells, as these are likely to be the most successful-and most instructive-competitors.

That is because a lot of research on cell movement uses genetic modification to silence or amplify genes thought to be involved in the process. Many of these genes have been found by looking at cancerous cells. Metastatic tumour cells-those which have spread from the site of the original tumour-migrate faster than other cells. If the genes that cause this mobility could be turned off, it would slow a cancer's spread. More positively, cell migration is the driving force of embryo development and is, in adults, essential to the immune response and to the healing of wounds.

Understanding cell movement, then, is important. Hence the idea of the race, which Dr Piel and Dr Lennon-Dumenil (who both work at the Curie Institute in Paris) and Dr Thery (at the Atomic Energy Research Centre in Grenoble) came up with at last year's meeting of the American Society for Cell Biology.

So far their competition has attracted 30 entrants. The heats will take place throughout August. Only at the end of the month will the videos be analysed to name the winners. The organisers say they are also considering giving a prize to the slowest cell, since lethargic cells would be a boon for cancer therapy. For cell biologists it should be an exciting contest. But a word of advice to sports fans: maybe just catch the highlights.

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African literature

Prince of the absurd

The mad, bad fiction of Congo's Alain Mabanckou



ALAIN MABANCKOU genially holds court at Jip's, an Afro-Cuban salsa bar in Les Halles, central Paris. In a faded denim jacket and his signature flat cap, he modestly shares news of his burgeoning career and tricontinental travels with members of Paris's black communities-from Guadeloupe to Guinea. Whether barmen or budding writers, they could have stepped straight off any page written by this Franco-Congolese novelist who, over the past decade, has come to be known as Africa's Samuel Beckett.

Mr Mabanckou came to France from Congo-Brazzaville to study law in 1989, but quit as a corporate lawyer within a decade. Now 45, he talks expansively about his passion for reading and rumba music, and with disdain about President Denis Sassou-Nguesso's "soft dictatorship" in the former French colony he revisits each year. But Mr Mabanckou's probing thoughtfulness (and the bear hugs he offers old acquaintances) give little hint of the comic savagery of his fiction. Its exuberant satire extends to a Rabelaisian pissing contest whose participants map France in spray, and a morbid parody of the serial-killer genre that owes as much to Albert Camus's "The Outsider" as to Bret Easton Ellis.

With nine novels to his name, along with six volumes of poetry, a biographical homage to James Baldwin, a gay American civil-rights writer, and a clutch of literary prizes, Mr Mabanckou broke new ground when he recently swapped his prestigious French publisher, Le Seuil, for the even more prestigious Gallimard. His fictionalised memoir of childhood, "Demain J'Aurais Vingt Ans" ("Tomorrow I Will Be 20"), came out under Gallimard's august La Blanche imprint. For nearly a century, La Blanche's distinctive cream covers have been the entry ticket to the canon of French literature. Mr Mabanckou is the first writer from Francophone black Africa to be included, and is now published alongside Marcel Proust and Jean-Paul Sartre. A Legion d'Honneur quickly followed. Presenting it in March, France's culture minister, Frederic Mitterrand, gushed over him, calling him "Mabancool" and a "shining ambassador for the French language".

It was surely an ironic moment. For Mr Mabanckou is a subversive, who views the language he learnt aged six as a "river to be diverted". Many of his models in breaking the "chains of 'pure' French", as he calls them, are Anglophone writers, such as Nigeria's Amos Tutuola, who have a longer history of remoulding English to their own ends. Rebelling against the rules of the Academie Francaise (the official authority on the French language-and one that has no equivalent in English), Mr Mabanckou's freewheeling prose marries classical French elegance with Paris slang and a Congolese beat. It weds the oral culture of his unlettered mother (the dedicatee of all his books) to an omnivorous bibliophilia encouraged by his stepfather, a hotel receptionist in Pointe-Noire on the Atlantic coast. In "Broken Glass" (2005) a disgraced schoolteacher retells the hard-luck stories of habitues of a Congolese bar, with drunken momentum and not a single full stop. The author incorporates the titles of about 300 of the books he feels made him a writer, from Louis-Ferdinand Celine's "Death on Credit", to Gabriel Garcia Marquez's "One Hundred Years of Solitude".

Since his first novel, "Bleu Blanc Rouge" (1998), ironically saluted the French tricolor in its title, Mr Mabanckou's fiction has moved between the dashed dreams of migrants in Paris and the ills of post-independence Africa, with its kleptocratic dictators and fratricidal wars. Yet, insisting on laughter in the midst of desperation, he sugars the pill of criticism with humour that veers from the gently ironic to the bawdy or macabre. "African Psycho" (2003) skewers consumerism through the inept Gregoire, a deadbeat petty criminal who botches all attempts to become a serial killer. It also makes fun of rivalries between Mr Mabanckou's "little Congo" and the formerly Belgian "big Congo"-one land carved up by European powers.

In "Broken Glass" the chronicler/narrator virtually lives in a bar that goes by the name of Credit Gone West. For the author, an African bar is an open-air laboratory crammed with the educated jobless, an inventive forum for debate. "Memoirs of a Porcupine" (2006) forms a loose sequel. Its tongue-in-cheek fable of a porcupine that has to kill for its human double is ostensibly written by the same sozzled scribe, who is himself called Broken Glass. The novel draws on oral lore and parables in its sly critique of those who use traditional beliefs as a pretext for violence.

"Black Bazar" (2009) returns to Paris, exposing prejudices between African and Antillean, or between west and central Africans, to dispel notions of black harmony. The main figure, Fessologue, is a Congolese *sapeur* or sharp-dresser. As a boy, Mr Mabanckou was fascinated by the dandies who returned from Paris obsessed with brand names, but the novel lampoons the idea of tailoring as a political statement.

Mr Mabanckou's work has been translated into 16 languages, including Korean and Polish. But the English-speaking world has been slow to catch on to his cutting charm. Only three of his books have come out in English (with an English version of "Black Bazar" on the way). And they are published by small, sharp-eyed firms: Soft Skull Press in America and Serpent's Tail in Britain. That may change, though, now that he is a tenured professor at the University of California, Los Angeles, where he spends eight months each year.

Mr Mitterrand may regard Mr Mabanckou as an exotic flower in France's literary garland, but the author is convinced that metropolitan France is no longer the centre of French literature. As Gallimard has recognised, writers from outside France are the ones now snatching the prizes and carrying the influence of French abroad. Mr Mabanckou proves that.

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The CIA and al-Qaeda

Question time

A CIA officer disagrees with American policy

The Interrogator: An Education. By Glenn Carle. *Nation; 321 pages; $26.99 and pound17.99.* Buy from Amazon.com, Amazon.co.uk

AN OFFICIAL in the CIA is sent abroad to interrogate a man he is told is a senior al-Qaeda terrorist. He begins to doubt this description, but his bosses are convinced that the detainee is withholding vital information. The two men are sent to a second country where the prisoner is subjected to more coercive treatment. The official opposes this and argues that the man should be released. His superiors disagree. He returns to Washington, DC, and eventually retires from the agency. The prisoner is subsequently freed.

If the bare bones of Glenn Carle's story are less than satisfactory, this is scarcely his fault. The CIA would not allow him to name the detainee or the two countries where the interrogations took place, let alone specify the coercive measures used. The agency initially blacked out 100 of his original 250-or-so pages. It took a two-year fight with his former employers for Mr Carle to get the book published in its present form. Even so, page after page is scarred with redactions. Some pages are more black than white. (Occasionally the author adds a terse footnote to a redaction he feels especially sore about.) To an unusual degree, the reader is left to make sense of a disjointed plot in which key bits of information are either missing or vague.

Mr Carle is not the gung-ho spook of popular fiction. He is a Harvard-educated New England Yankee who threw up a safe career as a banker to become a spy. His early experiences were in Costa Rica and Burundi, and he got a taste of the toxicity of the Middle East as a bit-player in the Iran-Contra scandal. The attacks on the twin towers in 2001 transported him from a desk job in Washington to an operational role in the "global war on terror". He was sent to interrogate a man he calls Captus, in a country we can surmise is Morocco, with clear instructions to do "whatever was necessary" to get him to talk. Mr Carle became convinced that Captus did not belong to al-Qaeda at all, and was no more guilty than "a train conductor who sells a criminal a ticket". He suspected, however, that his Arab hosts might be torturing Captus when he was not there.

Against his wishes, he and Captus were sent to a much grimmer establishment, which the author jocularly calls Hotel California, in a desolate part of what is clearly Afghanistan. Here Captus was subjected to noise, cold, sleep deprivation and worse (the redactions keep the reader guessing). Mr Carle wrote two "incendiary" cables to his bosses questioning the whole misguided approach, only to discover that his immediate superior did not send them.

Not all the weaknesses of the book are the fault of the CIA censors. Mr Carle repeats himself unduly as he agonises over the predicament in which he and Captus find themselves. He overburdens his account with quotations from his favourite authors. And for someone whose work requires him to understand Muslims, he has a startlingly low opinion of Islam.

But it is important that Mr Carle's story has been told, or half-told. This is not the first indictment of the Bush administration's conduct of the war on terror, its rendition of detainees to "black" sites and its sanction of "enhanced interrogation techniques". But Mr Carle takes us further into the "dark side" than we have gone before, by depicting in raw human terms the intolerable pressures placed on those torn between the need to prevent another September 11th and the dictates of conscience and constitution. America, he argues persuasively, misread the character of its enemy, creating a culture of fear which in turn led it to subvert its own laws and values. The whole experience has been, as Mr Carle's subtitle suggests, "an education". And not just for him.

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New English fiction

Club of members

A new offering from the author of "The Line of Beauty"

The Stranger's Child. By Alan Hollinghurst. *Picador; 564 pages; pound20. To be published in America in October by Knopf; $27.95.* Buy from Amazon.com, Amazon.co.uk



ALAN HOLLINGHURST achieved fame in 1988 with "The Swimming-Pool Library", a novel about gay sex in posh surroundings and social distinctions in Britain. "The Line of Beauty", his 2004 Man Booker prize-winner, dealt with the same themes in Thatcherite Britain. Now in "The Stranger's Child", we start out observing the relationship of two men, one from a suburb, the other from a stately pile. Mr Hollinghurst cannot be accused of inconsistency.

He provides readers with a modern equivalent to Evelyn Waugh's "Brideshead Revisited", albeit with knowing asperity and pastiche. It is a winning formula and proof that the British, while pleading attachment to meritocracy, adore a novel set somewhere with crenellations and an arboretum.

Cecil, a young poet, and his university friend, George, are as one character archly puts it "*very* attached to each other...in the Cambridge way". The amount of raw sex in Hollinghurst's oeuvre gets lighter and lighter with each book: it's positively vanilla here, despite Cecil's "celebrated *membrum virile*".

A talent for literary pastiche is the real strength. Mr Hollinghurst crafts a credible but somehow awful poem for Cecil, echoing Rupert Brooke's clammy portentousness. A German sniper sees off Cecil in the first world war, so we soon leave him, stiff and cold in the family chapel. Alas, the novel follows suit.

Having dispatched the most intriguing figure, the reader is left with the rather wet Daphne, George's sister, who is daft enough to believe that his poem was written for her, rather than as a cipher for his attachment to his male friend. Competing relatives and biographers struggle to sustain our interest, as they vie to control their evanescent "memories of memories".

As the 20th century unfolds, an ageing cast reinvents and pokes at Cecil, with letters and fragments as ammunition in the wars of literary remembrance. Yet this already feels dated, because the heyday of bookish biography has passed. The competitive quests of A.S. Byatt's biographers in "Possession" and their ilk seem antiquarian today.

The scope of the novel, from 1913 to the present, is the cause of some confusion. Characters pop up and disappear again, often before we have grasped their purpose. It is all beautifully controlled and mordantly funny, but devoid of warmth-a lot like the gilded, heartless people he is writing about.

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The war on drugs

Boxing cleverer

How to make sense of drugs policy

Drugs and Drug Policy: What Everyone Needs to Know. By Mark Kleiman, Jonathan Caulkins and Angela Hawken. *Oxford University Press USA; 256 pages; $16.95.* Buy from Amazon.com

THE war on drugs, like the war on terror, is proving a dear and dreary struggle against faceless enemies on shifting terrain. The latest report by the United Nations Office on Drugs and Crime (UNODC), published on June 23rd, gives little reason to think it is being won.

In America, where cannabis consumption had been falling, the UNODC thinks it is staging a comeback, along with ecstasy. In western Europe use of cannabis is stable, but it has increased in eastern Europe and Latin America. In Asia synthetic stimulants are on the rise.

More illegal substances are produced in the country in which they are consumed, whether cannabis in London or ecstasy and crystal meth in Indonesia. Fast-changing designer drugs are marketed before regulators have figured out whether to outlaw them, and the line between using drugs to combat medical conditions and taking them simply to improve performance-in exams, sports or sex-is increasingly blurred. Against a backdrop of violence in producer countries such as Mexico and Colombia, and mass incarceration in consumer countries including America and Britain, the argument over what to do about drugs is escalating.

So there has rarely been greater need for a cool, dispassionate voice to sift through the facts. Indeed, three such voices speak in this book. Mark Kleiman teaches public policy at the University of California, Los Angeles; he has written influentially about drug policy for a couple of decades. Jonathan Caulkins and Angela Hawken, occasional co-authors, teach at Carnegie Mellon and Pepperdine universities respectively.

Dedicated to the families and friends of substance abusers, and the professionals who work with them, "Drugs and Drug Policy" is a practical book which aims to debunk myths. It is where you go to look up how to compare the pharmacological risk inherent in different substances (there is a table), whether such a thing as an "addictive personality" exists that can predict susceptibility to drugs (not as such), or the consequences of legalising drugs in countries that are said to have done so (none really has, despite loose talk about Portugal and the Netherlands).

The authors are at their most interesting when they breeze with that same assumption of airy neutrality through what are in fact politically charged questions about policy. In 2009 Mr Kleiman wrote the best book in years on penal reform, another subject with a strong whiff of the culture wars. In "When Brute Force Fails" he argued that continuing to lock up offenders en masse was neither affordable nor desirable; what was needed was a smarter approach to enforcement, with strategically chosen targets *pour encourager les autres* and swifter, shorter, surer sentences to influence individual conduct.

The authors show the same instincts this time, looking at strategies for putting away dealers (focus on the violent ones), treating addiction (save your money for addicts who really can't go straight on their own) and so forth. Two successful "coerced abstinence" programmes come in for particular praise. Hope, a programme in Hawaii, tells offenders on

probation who are involved with drugs to ditch the habit, against the certainty of a prompt, short but escalating jail sentence if they fail the frequent drug tests. Drug use has plummeted: one year into the programme, 80% of the probationers have been drug-free for three months or more. Another scheme, Sobriety 24/7, takes the same brusque approach with repeat drunk-drivers in South Dakota, testing them twice a day to see if they have had a drink. More than two-thirds of the group never "blow hot", and drunk-driving arrests are down by more than half even after the ex-offenders are no longer subject to testing.

Mr Kleiman's views on the great question of the day-whether drugs should be legalised-are nuanced. He appreciates that legalising drugs could reduce the violence surrounding the trade and the degradation of serious abusers, but values the role he thinks prohibition plays in limiting consumption. This paper has long advocated legalisation, but has never claimed it was a trouble-free decision. There is plenty of common ground with this thoughtful and clearly written book.

Stem-cell medicine

Hope over hype

A science writer analyses the history of stem-cell research

The Stem Cell Hope. By Alice Park. *Hudson Street Press; 318 pages; $25.95.* Buy from Amazon.com



The trouble stems from here

THE unrelenting pace of scientific accomplishment often outstrips the progress of moral thought, leaving people struggling to make sense, initially at least, of whether heart transplants are ethical or test-tube babies desirable. Over the past three decades scientists have begun to investigate a branch of medicine that offers astonishing promise-the ability to repair the human body and even grow new organs-but which destroys early-stage embryos to do so. In "The Stem Cell

Hope" Alice Park, a science writer at *Time* magazine, chronicles the scientific, political, ethical and personal struggles of those involved in the work.

Embryonic stem cells are pluripotent: they have the ability to change into any one of the 200-odd types of cell that compose the human body; but they can do so only at a very early stage. Once the bundle has reached more than about 150 cells, they start to specialise. Research into repairing severed spinal cords or growing new hearts has thus needed a supply of stem cells that come from entities that, given a more favourable environment, could instead grow into a baby.

Immediately after the announcement of the birth of Dolly the sheep-the clone of an adult ewe whose mammary cells Ian Wilmut had tricked into behaving like a developing embryo-American scientists were hauled before the nation's politicians who were uneasy at the implication that people might also be cloned. Concern at the speed of scientific progress had previously stalled publicly funded research into contentious topics, for example, into *in vitro* fertilisation. But it did not stop the work from taking place: instead the IVF industry blossomed in the private sector, funded by couples desperate for a baby and investors who had spotted a lucrative new market.

That is also what happened with human stem cells. After a protracted struggle over whether to ban research outright-which pitted Nancy Reagan, whose husband suffered from Alzheimer's disease, against a father who asked George Bush's advisers, "Which one of my children would you kill?"-Mr Bush blocked the use of government money to fund research on any new human embryonic stem-cell cultures. But research did not halt completely: Geron, a biopharmaceuticals company based in Menlo Park, California, had started "to mop up this orphaned innovation", as Ms Park puts it, by recruiting researchers whose work brought them into conflict with the funding restrictions.

Meanwhile, in South Korea a maverick scientist claimed not only to have cloned human embryos but also to have created patient-specific cultures that could, in theory, be used to patch up brain damage or grow a kidney. Alas, he was wrong. But a Japanese scientist did manage to persuade adult skin cells to act like stem cells. If it proves possible to scale up his techniques, that would remove the source of the controversy over stem-cell research.

Three months after he took office, Barack Obama lifted restrictions on federal funding for research on new stem-cell cultures, saying that he thought sound science and moral values were consistent with one another. But progress has been slow: the first human trials in America, involving two people with spinal-cord injuries who have been injected with stem cells developed by Geron, are only just under way. The sick children who first inspired scientists to conduct research into stem cells in order to develop treatments that might help them are now young adults. As Ms Park notes, the fight over stem-cell research is not over, and those who might benefit from stem-cell medicine remain in need.

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"Trame" book festival

Fearless words

A literary fest challenges the Mafia on its own turf



What a racket

WITH a police bomb squad present, armour-plated cars for many speakers, platoons of bodyguards and enough firearms to quell an insurrection, "Trame" ("Plots") was an unusual literary festival. Held recently in Lamezia Terme, the five-day event posed an unusually acute security problem because it focused on recent books about the Mafia, because the lives of several speakers have been threatened and because the town where it was held is in southern Calabria, a region that has long been ruled by the clans.

The two men behind "Trame" are Tano Grasso, under police protection since 1991 for founding Italy's first anti-racket association, and Lirio Abbate, a journalist from Palermo whose 2006 book, "I Complici", written with Peter Gomez, led to death-threats and a 24-hour police guard. Lamezia Terme's mayor, Gianni Speranza, who approved euro80,000 ($115,590) of public funding for the festival, received bullets in the post when he was first elected in 2005 and had bodyguards for several years. Two murders in the town last month, in which the Mafia had a hand, were reminders, if any were needed, of the clans' methods.

Yet most of the 55 works presented deal with matters other than the *mafia militare* that kills and wounds. Mario Portanova's "Mafia a Milano" and Enzo Ciconte's "'Ndrangheta Padana" both look at how the two Mafias have penetrated the economy and society in northern Italy. To write "DisOrdini", Alessandro CalÃ¬, an engineer from Palermo, investigated how *mafiosi* and their allies have joined the engineering profession's roll and become members of other similar orders. And several members of the magistracy spoke about their works, among them Roberto Scarpinato, who prosecuted Giulio Andreotti in a case that showed that the seven-time prime minister had had ties to Cosa Nostra. His book "Il Ritorno del Principe" concerns collusion between politics and the Mafia, and what he calls "the criminality of Italy's governing class". In "Le Due Guerre", Gian Carlo Caselli, who volunteered to be chief prosecutor in Palermo after two magistrates, Giovanni Falcone and Paolo Borsellino, were murdered in 1992, explains why Italy defeated political terrorism but has not beaten the Mafia.

"Books on the Mafia sell well if they name politicians or businessmen," says Lorenzo Fazio, who in 2007 set up Chiarelettere, the independent publisher that brought out Mr Scarpinato's book, which has sold more than 30,000 copies. "Metastasi" by Gianluigi Nuzzi and Claudio Antonelli, which deals with the relations between the Northern League politicians and the 'Ndrangheta, Calabria's Mafia, and has brought Chiarelettere and the authors writs for defamation, has sold over 60,000 copies since it came out six months ago. Legal risk is one problem for books on the Mafia, distribution another. Bookshops in the south are often reluctant to stock them, noted Florindo Rubbettino, whose Calabrian firm publishes around 15 books on the Mafia each year. Mr Rubbettino was one of four southern Italian publishers with stands on Lamezia Terme's main street; others were taken by civil-society organisations and the town's bookshops.

The Mafia is a dark subject, but the festival was sandwiched between two local saints' days and the main street was brightly lit by arches of blue, gold and green lights. And "Trame" was luminous in another sense. Students from northern

and central Italy joined with townspeople to pack the debates that began early in the evening and continued until midnight, showing that civic conscience has not been quashed. "I'm delighted with how the festival turned out," said Mr Speranza, whose name means "hope".

Robert Oakeshott

Robert Oakeshott, champion of worker co-operatives, died on June 21st, aged 77



Johnny Grimond

ON A dirt road in Botswana, where he was running a school, Robert Oakeshott once ran out of petrol. He decided that he and a colleague could push the car the many miles home, while the woman of the party, the writer Doris Lessing, sat behind the wheel to steer. To his cheerful shouts of "Almost there!" they reached the top of a hill from where, he had reckoned, they could easily cruise down. As they crested it, with Lessing half-in and half-out, the car rolled back over her, cracking her hip. She was confined to the sofa for some days.

An apt metaphor, some might think, for the back-and-forth progress of Mr Oakeshott's favourite idea: workers' co-operatives, in which workers own and run their companies. His life was devoted to pushing, in the most amiably persistent way, the notion that if workers became stakeholders, if the gap between management and labour vanished, and if effort and profit were shared for the common good, human beings would be happier, freer and, just possibly, better off. Round the world he went, inspecting foundries in Florence, care-providers in New York, coffee-shops in Dublin, to see how they were doing. In his ears, along with merry snatches of Handel, rang the words of J.S. Mill: that if production became co-operative, there would be a moral revolution.

He knew-being a realistic man as well as a crashingly impractical one, who once missed Greta Garbo's glass by a mile when serving her at Chateau Lafite, and also drove a horse and trap through a gate only wide enough for the horse-that co-ops were hard to create. Capital was scanty. Unions were hostile. Management and worker functions clashed uneasily together. For decades, both right and left ignored co-ops (though both Gordon Brown and David Cameron have recently endorsed the ideal). Marx had mocked them as "dwarfish", a word Mr Oakeshott ruefully relished. *The Economist*, for which he wrote occasionally, was cool about them. Undaunted, he pressed his case.

For most of the 1970s he ran his own building co-op, Sunderlandia, in the north-east of England. The region was in steep decline, but he liked it, dropping his Balliol accent to say "New-cassle" like a local, and finding it fertile ground for his schemes. As he ate with his fellow-workers in the greasy spoon, enjoying their competitive talk of growing leeks and selling scrap, he realised that under the industrial overalls lurked canny capitalist peasants. Sunderlandia bowled along for some time; but then a downturn came, and the worker-members would not agree to cut their own pay. In 1978 it went into liquidation.

Others might have been set back, but not Mr Oakeshott. He adjusted his glasses, usually held together with Sellotape and rubber bands, hitched up his trousers, usually belted with string, and forged on. He could point to co-operative successes: the worker-owned John Lewis department store, current turnover around pound8 billion a year, and in particular the cluster of machine-making co-ops at Mondragon in Spain, founded by five defecting engineers in 1956, now with 85,000 workers and an annual turnover of euro15 billion. A key element in Mondragon, it seemed to him, was the inspirational leadership of a priest, Jose Maria Arizmendi, who surprised him by producing Mao's "Little Red Book" out of his bottom drawer.

Solidarity in drinking

Mr Oakeshott became an inspiration himself, drawing up business plans for fledgling co-ops, securing capital and founding the Employee Ownership Association in 1979 to speak for them. As communism fell he eagerly took his ideas to eastern Europe, in the hope of installing co-ops there before the oligarchs arrived. His own politics were briefly Labour and more often Liberal, though he admitted, when he ran unsuccessfully for Darlington as a Liberal in 1966, that he had joined the party on his way north on the train.

Despite his upbringing, surrounded by books and learning as the son of a man who became vice-chancellor of Oxford, snobbery never touched him. He loved red wine, but the quantity mattered rather than the quality. His idea of an elegant dinner was macaroni cheese with a kipper thrown in, and with pages of the *Financial Times* (for which he had written from Paris) spread on the table as a cloth. His decade in Africa in the 1960s made him feel "in more vainglorious moments" that he was a black-Africa buff and an old Kalahari hand, but he approached the place humbly: at his school at Shashe River he dug fields and scrubbed latrines with the rest.

Perhaps his biggest innovation there was a course in development studies, which was then barely taught anywhere. The improvement of human lives was his passion: whether training Botswanan boys to be builders and farmers, or encouraging Europeans to discover the freedom of working without a boss.

He was especially pleased to note that the *chiquitos*, or drinking clubs, of Mondragon had furnished much of the capital for the co-ops there. Though small, they composed a network of trust. And he mused happily in his book "The Case for Worker's Co-ops" (1978), that if such clubs could not foster co-operative behaviour in Britain and America, they "might well deserve to be copied on their own account".
